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MANAGEMENT REVIEW

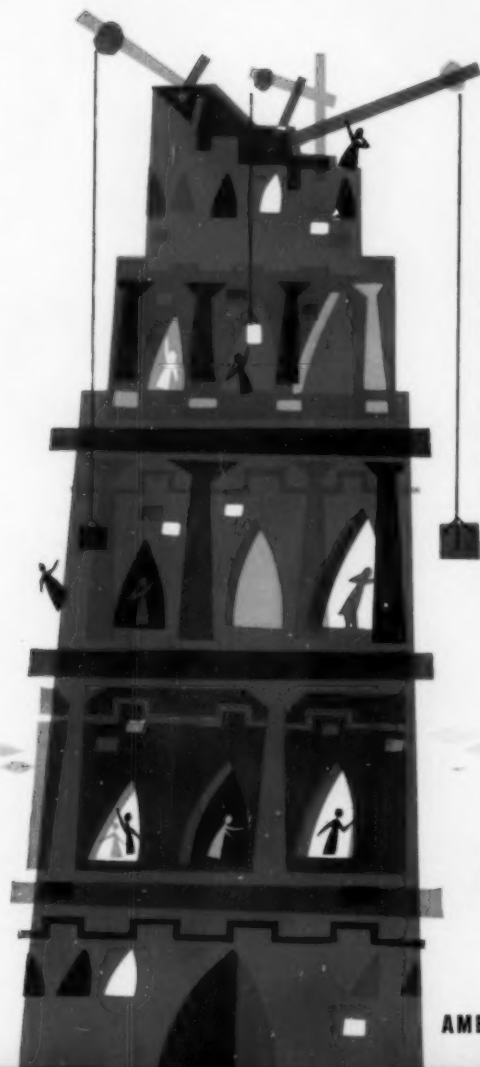
JUNE 1961

MANAGEMENT'S TOWER OF BABEL

Appraisal and Executive Morale

Moment of Truth

Research and Engineering Abroad



AMERICAN MANAGEMENT ASSOCIATION

AMA's SUMMER PROGRAM

July and August, 1961

*On the Campus of Colgate University,
Hamilton, New York*

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For complete information about Summer Program activities, write to AMA's Registrar, 1515 Broadway, New York 36, N.Y. Please mention the management area you are particularly interested in.

AMERICAN MANAGEMENT ASSOCIATION, INC.



IN THIS ISSUE

- **Different Wavelengths?** Although management is much more aware than it used to be of the importance of watching its language, the semantic lag in business continues to be a serious and costly one. Drawing on recent studies and company experiences in communicating with employees, stockholders, consumers, and the general public, this month's opening feature demonstrates with many examples how management is unwittingly jamming its own messages.
- **How'm I Doing?** Many an otherwise able executive feels uncomfortable about appraisals; he may be doing a good day-to-day job in developing the managers who work under him, but he'd just as soon defer indefinitely the evil moment when he has to sit down with a man and discuss his over-all strengths and weaknesses. On page 25, MORTIMER FEINBERG tells how such interviews can be made a little less painful—and decidedly more profitable—for all concerned.
- **Moment of Truth.** A cartoon feature (page 32) that illustrates some of the finer points of conducting an appraisal interview.
- **Over There.** In industries where the product is relatively complex—like chemicals, electronics, and many others—research and engineering costs are *the* critical factor in the company's break-even picture. Thus, in companies with subsidiaries abroad (or in those considering acquiring them), the payoff question is: How do research and engineering costs in one country compare with those in other countries—and with domestic costs? On page 49, JOHN BENNET tells how ITT developed some common denominators in order to make these comparisons.

— The Editors

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COVER ART BY PAGEANT STUDIO

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MANAGEMENT'S TOWER OF BABEL

■ Verne Burnett
Public Relations Journal

Recent events and research show that management's communications are still creating needless misunderstanding and resentment . . .

AN EXECUTIVE of a large food corporation recently discovered that many of the women who bought the company's products didn't care to be called "consumers." Exploring the subject further, he found that they believed the word was too impersonal—that it seemed to treat them as statistics instead of human beings. Words like "customers" and "homemakers" met with favor, and

married women generally approved of the term "housewives."

Many publicly owned corporations have discontinued the use of the word "stockholder" and have substituted "shareholder" or "shareowner," which emphasizes the idea of participation. In the language of Wall Street, the word "earnings" is replacing "profits." "Earnings" indicates that profits were made, all

A MANAGEMENT REVIEW SPECIAL FEATURE

right—but it also implies that the enterprise really deserved them.

Various American companies are now using the word "overseas" in referring to their operations outside of North America, since they have found that few people like to be referred to as "foreign."

In retail businesses, the novice clerk learns to say "lady" and "gentleman" instead of "woman" and "fellow," along with other proper expressions and manners. This concept is carried even further by the American Telephone and Telegraph Company, which not only teaches its operators and other personnel exposed to the public how to say the right thing at the right time, but also offers to switchboard operators in other companies instruction in expressions and techniques that create understanding and good will.

Semantics in Business

These scattered examples indicate some of the ways in which semantics, the study of meanings, is being applied today in business and industry. Semantics is now getting attention from chairmen and presidents of corporations, as well as from other executives who must communicate with customers, employees, investors, or any of the other "publics" of business.

Why the increased interest? Recent events and studies have clearly shown that to a large extent the terms in which management tries to communicate do not achieve their purpose. Many of the words draw an almost complete blank; others cause confusion; and some can make the reader and listener come to a slow boil.

Bewitched, Bothered, and Bewildered

The fact that management often fails to get through with its messages was emphasized during the recent steel strike, when the steel companies came to the realization that their communications to employees, plant communities, and the general public contained words and phrases that didn't register with their listeners, resulted in confusion, and sometimes caused irritation and resentment. This unhappy fact was confirmed by surveys of the steelworkers, which revealed that they considered management's messages complex, stilted, abstruse, confusing, and irritating.

The Opinion Research Corporation recently published findings of an extensive study on semantics covering many areas of American business. According to Walter Barlow, president of Opinion Research,

Mr. Burnett, who is on the board of editors of *Public Relations Journal*, has just completed three years as editor of that publication. He was formerly a vice-president of General Foods Corporation.

"The widespread, keen interest evoked by this study among key executives in numerous fields of business seems to me to be highly noteworthy. It shows an awareness among these important people of the need for improving their communications, so that their various publics will clearly understand the messages and will not feel confused or angered because of misinterpretations. Naturally, a management's basic attitudes, policies, and practices rank first in importance. But the phrasing of the explanation of these matters can vastly aid or injure their acceptance."

Psychological Corporation, a pioneer in this field, has also conducted many explorations into business semantics. For example, it has examined the effects of such words as "automation." As recently as 1956, the researchers found, only half of a nationwide cross-section of the public said it had ever seen or heard the word "automation." Most of the people in upper income and educational brackets had heard of it, but at the lower end of the scale, only 31 per cent were even aware of its existence. Small wonder, then, that many managements have experienced difficulties in trying to discuss the impact of this vitally important development with employees and the general public.

"Good" and "Bad" Words

From such studies as these, many interesting and sometimes surprising

revelations have been brought to light. Generally speaking, some words have been found to be rather poisonous. "Speculation" is one of these; "political" is another. When one refers to the SEC as a "governmental" commission, the connotation usually calls for respect; substitute the word "political," and the opposite reaction is often evoked. Both descriptions have the element of accuracy—but what a difference one word can make!

Brokers have found that some terms, such as "good, sound stocks," will elicit fairly favorable reactions, but they have also learned that "stocks of good, sound corporations" strikes a more resounding chord with many investors. "Stock" produces a vague image of a piece of paper covered with ornate designs, but "sound corporation" apparently enables the investor to visualize an enterprise in which he can place his confidence. (Incidentally, investors react favorably to "corporation," which implies strength and solidity, but employees usually prefer the word "company"—a less imposing and friendlier term.)

Euphemisms and malphemisms

Many companies have learned that it's possible to say the same thing in two ways that evoke widely different reactions. A company may say, for example, that it "dominates its industry." This may be a fact, but it rubs people the wrong way; they believe in healthy competition,

and they don't approve of domination. But the reception of the same information can be quite cordial if it is stated more euphemistically: "The A Company is the leading manufacturer in the widget industry," for example. The public usually approves of a firm that has won

its way to a prominent status in a competitive field.

In 1960, Group Attitudes Corporation published the results of a series of studies it had undertaken at the behest of the steel companies to determine how management could better have communicated its story

WORDS TO CONFUSE BY

Following are thirty words found by Group Attitudes Corporation's interviewers to be most frequently misunderstood by steelworkers, with suggested translations of these words and phrases into "steelworker" language.

"accrue"— <i>pile up; collect</i>	"facilitate"— <i>help along</i>
"compute"— <i>figure</i>	"fortuitously"— <i>by chance; accidentally; luckily</i>
"concession"— <i>giving up (something)</i>	"generate"— <i>create; build; produce</i>
"contemplate"— <i>think about; expect</i>	"impediment"— <i>barrier; road block</i>
"delete"— <i>cancel; take out; remove</i>	"inadequate"— <i>not enough</i>
"designate"— <i>name; appoint</i>	"initiate"— <i>begin; start</i>
"deterioration"— <i>breaking down; wearing away</i>	"increment"— <i>raise; increase</i>
"detrimment"— <i>hurt; damage; harm</i>	"inevitably"— <i>in the end; finally</i>
"economic problem"— <i>a cost problem</i>	"injurious"— <i>damaging; harmful</i>
"efficiency"— <i>the way it should be (e.g., operating a machine the way it should be operated)</i>	"jeopardy"— <i>danger</i>
"embody"— <i>contain; include; hold</i>	"magnitude"— <i>size</i>
"equitable"— <i>fair; just</i>	"modify"— <i>change; alter</i>
"excerpt"— <i>section; part</i>	"objectivity"— <i>fairness</i>
	"pursuant"— <i>in agreement with</i>
	"perpetuate"— <i>keep alive; continue</i>
	"subsequently"— <i>later</i>
	"ultimate"— <i>final; end</i>

during the extended steel strike. In the course of nearly 3000 interviews with the steelworkers themselves, researchers compiled lists of words and phrases in management's letters, pamphlets, and news releases that were either misunderstood or not understood at all. On pages 7, 8, and 9, the thirty words and thirty phrases that most frequently fell in these categories are listed, together

with a "translation" that would have been more understandable to the workers surveyed.

Things the Dictionary Won't Tell

From the increasing number of studies and surveys being undertaken in the field of semantics, it has become clear that a manager must ask himself three things about the audience he hopes to reach with

THIRTY PHRASES WORKERS MISUNDERSTAND

The following phrases, frequently misunderstood by steelworkers, could have been clarified by using the suggested "translations" in italics:

- "avoid further inflationary pressures"—*avoid the things that make prices go up*
- "best long-term interests"—*better in the long run*
- "changes would be sanctioned only if . . ."—*no changes would be allowed unless*
- "endeavored to interest union leaders affirmatively"—*tried to get the union leaders to agree to*
- "exclusive function"—*sole right*
- "fundamentally the same"—*almost exactly the same*
- "insofar as practicable"—*as far as possible*
- "impartial men"—*fair men; men without an axe to grind*
- "in all sincerity and complete conviction as to the merit in the public interest"—*because we sincerely believe it is best for everyone*
- "jointly chaired"—*took turns as chairman*
- "meet reasonable requirements of business demands"—*do our best to serve our customers*
- "misrepresented these proposals as devices"—*unjustly attacked the proposals as ways*
- "modify the discipline"—*lighten the penalty*

his communications: Are they familiar with the words or phrases I am using? Do my words have the same connotation for them that they have for me? Will any emotional reactions—either positive or negative—be aroused?

1. Familiarity

It is obvious that you can't communicate with someone unless he

understands the meaning of the words you are using, but many managers don't seem to be aware that what is clear to them may be meaningless to their audience. During 1960, Opinion Research Corporation surveyed hundreds of workers in industrial and utility companies in eleven large manufacturing centers across the United States and found that many of the

"men of outstanding qualifications and objectivity"—*fair men of broad experience*

"not justified on any basis of equity"—*all give and no take; not a fair deal*

"protection against arbitrary discharge"—*guard against being fired without cause*

"representatives of both parties"—*men from both the union and the company*

"retain the sole discretion to decide"—*be the one to decide*

"reject summarily"—*turn down flat*

"seek to demonstrate a cooperative attitude"—*try to be fair*

"share new economic progress"—*share in future gains*

"substantially in accordance"—*almost exactly like*

"take precedence"—*come first*

"take affirmative action"—*go along with; move ahead*

"to make it consistent with"—*to make it agree with*

"ultimate solution"—*the final answer; the end result*

"union studiously vilified the companies"—*the union went out of its way to attack the companies*

"unnecessarily restrictive"—*too binding; too strict*

"wholly inconsistent with their professed desire"—*not what they say they want to do*

"with the objective of facilitating"—*with the idea of helping*

terms that executives rely heavily on to put their meaning across just didn't get through to the workers. Such words as "depletion," "revenues," and "productivity" sailed right over their heads, and even words that they thought they knew—"productivity," "capitalism," "technology"—often had to be explained before they understood their correct meaning.

An obvious solution for the manager is to use synonyms or other expressions that have more meaning for the audience. "Earnings," for example, is clearer than "net income"; employees understand "sales tax" more than twice as often as "excise tax." When it is hard to find a word or term that will do the job intended, a brief descriptive phrase can clarify the idea.

Of course, there are many words that don't have to have their meanings spelled out. Even some technical terms are within the realm of experience of the reader or listener and therefore register quite well. Unless it is necessary, management shouldn't give the impression of patronizing or talking down to its audience by oversimplification.

2. Connotation

In addition to their dictionary meanings, many words also have definite connotations that management should be aware of. In the course of the Opinion Research survey, it became clear that people often interpret the language of man-

agement exactly opposite from the way that was intended. The word "capitalism" offers a prime example: Only one-fourth of the workers surveyed interpreted the word as management did—to connote "private ownership of business" and "equal opportunity for all." To the rest, the word suggested that "the wealthiest people take over"; "big business has so much money that it freezes the little fellow out of business"; "a dictatorship by the rich."

Other words can have equally unfortunate connotations. The word "old" is fine for bourbon—people like alcoholic beverages made in an old-fashioned way and well aged. Scientific improvements in this area leave them cold. With some companies, however, the connotations of "old" may be all wrong. It's fine to create an image of a seasoned, respected organization, but no management wants to imply that it is overly conservative, stodgy, or too tired in spirit to anticipate any progress in the future.

A large copper-producing corporation bought out a company that had a great many employees in a certain community. High employee morale and fierce local pride flourished. But the new owner antagonized the workers and turned a potential asset into a liability by referring constantly to the local company as a "subsidiary." To the workers and citizens of the community, this implied inferiority. Calling the local firm an "affiliate"

of the parent corporation would have created far more acceptance.

3. Emotional effects

Probably the most powerful impact of semantics, at least on employees, involves emotions. Employees who were surveyed in the 1960 Opinion Research study were asked to look through a list of adjectives commonly used by management and to choose the ones they considered good or bad, favorable or unfavorable. The results included a few surprises for management. For example, "incentive pay" aroused favorable feelings, but "piece work" met with down-turned thumbs. Yet to many managers, the terms are synonymous. Similarly, "union shop" was widely favored, but its counterpart, "compulsory union membership," really raised hackles. Workers were favorably disposed to the term "employee benefits," but they resented "fringe benefits" and "hidden salaries and wages" for their accusative tone and implications of sneakiness.

Many executives undoubtedly feel that they are being polite or gentle by referring to a strike as a "work stoppage," but workers don't seem to feel the same way. The word "strike" was approved for its connotations of an acceptable and necessary means to an end; "work stoppage," on the other hand, seemed to imply irresponsibility—something for which the workers were to blame.

Obviously, then, the manager concerned with being understood must take into account the emotional effects and reactions that his words will have on his audience and select the terms that will arouse only feelings he intends to convey.

Because words do have the power to evoke strong emotional responses, some have feared that knowledge of semantics may be misused to manipulate people. Can this really happen? "The answer," says Walter Barlow of Opinion Research, "is yes. But whether applied as Hitler or Winston Churchill used it is a matter of integrity of the communicator, not technical skill."

Applied Science

The survey findings described in this article apply, at least in part, to all segments of business and industry. Of course, different industries—and sometimes different companies within the same industry—have some terminology that is peculiar to them, and for this reason, any company that wants to do an effective job of communicating must dig more deeply into the science of meanings in its own bailiwick.

Interest in semantics is growing—not only in business, but in politics, labor unionism, charities, education, and various other fields. In unworthy hands, the techniques of semantics can create havoc, but enlightened management can make this science serve the best interests of business and of all its publics. ♦



U.S. BUSINESS AND THE RACE FOR SPACE

By Gerald J. Barry and Henry Simmons

Condensed from Newsweek

WANT TO WATCH the next Olympics in Tokyo in 1964, the opera in Milan, May Day in Moscow's Red Square—all while they're going on? You may be able to—by flicking on your television set. You may enjoy instantaneous, worldwide phone service, too, instead of waiting an hour to put through a New York-to-Paris call. And business should be able to flash computer information from Los Angeles to Buenos Aires at the speed of light.

All this is the promise of the

soon-to-be-tapped business of space communications via private satellite, a down-to-earth enterprise that will operate high in the sky to unchoke the world's overburdened international phone and telegraph lines and make global TV possible as well.

Industry is ready to provide these services for one simple reason: There's money to be made in it. Lockheed Aircraft Corp., for example, expects that all revenues from space communications will

Newsweek (May 8, 1961). © 1961 by Newsweek, Inc.

eventually run as high as three billion dollars a year. Assistant Army Secretary Richard S. Morse estimates that private satellites will yield an income of "several billions of dollars per year by the late 1970's." And Lloyd V. Berkner, chairman of the National Academy of Science's Space Science Board, says that satellite communications will be a 100-billion-dollar business within twenty years.

Off the Pad

With the stakes so big, a string of blue-ribbon companies is waiting impatiently for the countdown that will send them on a profitable space journey. Well in the van is the American Telephone & Telegraph Co. The Bell System can have its own experimental satellite in the sky by Christmas, says AT&T president Frederick R. Kappel. In three or four years, "or maybe even less," he adds, AT&T could have a full-scale, privately financed satellite communications system in operation. It would include fifty satellites in polar orbit 6000 miles up, relaying messages throughout a ground network of 26 terminals scattered across the earth. The company, which is ready to invest at least 170 million dollars in the effort, expects to increase overseas phone business from last year's four million calls to one hundred million by 1980. (A satellite system will cost only a third as much as laying new undersea cables.)

Other corporate fingers are also reaching for the blast-off button. General Electric, International Telephone & Telegraph, Radio Corp. of America, Hughes Aircraft, Lockheed, General Telephone & Electronics, Philco, Bendix, Thompson Ramo Wooldridge, and Ford have all joined the race into space, a region that has been the private arena of governments up till now. GE's program calls for ten satellites to orbit at 6000 miles. The company speculates that the system would cost 280 million dollars and return a profit of 30 million dollars a year by 1970. A third system, championed by RCA, calls for three large satellites stationed at fixed spots 22,300 miles above the equator.

Before the Countdown

The feasibility of space communications was proven by Echo and Courier, the still-orbiting satellites that were launched last year. The problems, therefore, aren't so much technological, or even economic, as they are bureaucratic and political. No single agency in Washington can launch private enterprise into space. An interested company must deal with the National Aeronautics and Space Administration to get booster rockets and with the Federal Communications Commission to get a frequency allocation. It must check in with the Justice Department for a blessing on antitrust grounds, with the State Department because of the international nego-

tiations involved, and with the Defense Department about national-security interests.

When this home-grown jurisdictional jungle is cleared away, there is still the thorny matter of getting other nations to allot some of their broadcasting frequencies. Up to now, the government's pioneering models have used a narrow band of frequencies set aside for experimental purposes. But a satellite system in full operation will eat up large areas of a limited spectrum.

The matter of East-West cooperation could be far more troublesome, for there obviously cannot be a worldwide communications system that does not include the Communist nations. The International Telecommunication Union meets in Geneva in 1963 to thrash out frequency-allocation problems. If all goes well, the ITU might end up by forming an international cartel of sorts that could include such unlikely partners as the Kremlin, AT&T, and the British Post Office (which operates telephone and telegraph service in England).

Immediate Obstacles

Although international hurdles can be taken in the future, there are plenty of immediate obstacles—none more challenging than the question of dispensing fair treatment to all potential space communicators. "No company can just put up a satellite," a federal space-agency official emphasizes. "The

government owns all the rockets and all the launching facilities. If we hastily agree to help one company, there's the danger that we might be excluding able competitors."

Basically, a single policy decision is needed: Should the government accept AT&T's offer to put up its own privately financed satellite system, or should it give the nod to a consortium? Most experts agree there won't be economic justification for two private satellite systems for a long time to come.

Joint Ventures

Other companies are coming up with space-development programs of their own. Last week, General Electric announced the formation of a new company, to be called Communications Satellite, Inc. This would be a joint venture, open to space-minded firms both at home and abroad. Lockheed, which underwrote a \$500,000 study on the business potential of satellites, developed a similar plan for a "common carrier's common carrier." But Lockheed isn't particularly interested in sending up its own satellites. "We want to provide the space hardware (rockets, tracking stations, etc.) for those who have something to transport to space," says a spokesman.

All the civilian plans are based on the premise that the government will soon flash the green light and let private enterprise into the space business. The premise is well found-

ed. Just before he left office, President Eisenhower issued a memo saying that "the government should aggressively encourage private enterprise in the establishment and operation of satellite relays for revenue-producing purposes." The Kennedy Administration hasn't changed the policy, but it has raised a caution sign.

James Webb, NASA administrator, recently noted he was taking a hard new look at the situation because "once you have committed yourself, you have to travel up that road." As matters now stand, NASA intends to launch the first of a series of active space satellites, in an experimental program dubbed

Project Relay, sometime next year. A year after that, the Pentagon, with a communications-satellite program of its own, plans to get Project Advent (which might eventually cost 500 million dollars) into the air.

Some military brass think Advent, designed to handle defense data, should handle civilian communications, too. They argue that the nation cannot afford two huge satellite programs. But there is little likelihood that the government will get into the communications business. Most experts expect that the impasse over which company or group should get the go-ahead into space will be broken soon. ♦

One Way with Business Papers

AN EVER-PRESENT, nagging problem for the busy executive is how to deal with the relentless accumulation of business and/or professional magazines. As one manager puts it, in Rogers, Slade & Hill's *Management Briefs*:

"If you don't read them, they pile up accusingly. If you try to plow through them conscientiously, you spend too much time. If you take them home, you ruin your evenings, or overload the housecleaning department, or both. If you delegate the reading to a subordinate who summarizes and reports on anything of significance, you get only what he recognizes as significant.

"I've licked the problem with a procedure that works. I look through every magazine immediately on receipt. (It's fatal to put them off.) In these, I never read anything at length and in full—unless, of course, it is of the greatest importance. By glancing at the headline, lead sentence, and maybe a sub-caption or two, I can tell in seconds whether an article has anything I must know about. If so, I mark it for my assistant, and go on.

"He clips out the pieces I've marked, underlines key words, phrases, and sentences, and gives the clipping back to me. In this form, I can master its substance in a minute or two, and either throw it away, save it for train reading or—in exceptional cases—mark it for subject-filing. Result: In half an hour or so a week, I keep on top of the news in my field, when it used to keep on top of me."

Is Package Copy Doing Its Job?

Condensed from Modern Packaging

COMPANIES engaged in the fierce battle for stand-out brand images are ignoring, all too often, one of their most effective weapons: package copy, the descriptive matter and directions that appear on a container's back and side panels. Package copy is among the most widely read wording in everyday living; how it comes through to the consumer can have a strong effect on the product's success.

Packages for new convenience foods that are unfamiliar to the housewife must tell her everything about the product and how to prepare and serve it. A generation of do-it-yourselfers must be told, on the package, how to use a new tool. And, with the almost complete disappearance of personal service in today's retail outlets, there is no other way for a shopper to learn how to use a growing variety of products except from the package itself.

Secondary surfaces on packages can be more than merely instructional. They also offer the manufacturer millions of secondary promotional exposures. Too few companies recognize the advertising

potentials of packaging. One packaging consultant estimates that 25 per cent of the space on packages is still wasted. "There are 14,000 known uses for salt," he says, "but how many of them have ever been described on the now-wasted space on salt packages to sell more salt?"

Time Out for Questions

Every packager should take time out to re-evaluate secondary package-surface treatment. He should ask himself such questions as these:

- Is all secondary copy now on the package performing a selling function?
- Does the layout make the best use of the limited space available?
- Is direction copy written in simple, everyday language?
- Which kind of directions is more effective for the proper use of the product—narrative or step by step?
- Is all the type legible?
- Would the use of more "how-to" illustrations clarify instructions?
- What improvements can be made in present copy?
- Are the graphic devices and color treatments used the best ones

Modern Packaging (April, 1961), © 1961 by Modern Packaging Corp.

available to obtain the desired emphasis?

- Is there space for additional sales messages?

- Are testing and research procedures adequate to back up the informational copy?

Package-Copy Techniques

So far, perhaps, package-copy techniques have been developed to their highest degree in the food industry. Many lessons learned there can help manufacturers in all lines. At General Foods, for example, a wealth of planning and organization is brought into play by the General Foods Kitchens before it can be stated, for example, on a package of frozen spinach: "Use $\frac{1}{2}$ cup of water; cooking time 1 to 2 minutes; cooking begins when water boils and spinach is thawed."

All package direction copy is prepared by the Editorial Services Department. Two of its members devote full time to packaging. They write all preparation directions, arrange illustrative material, fit copy to space, and check all proofs. In a year, they handle 800 new packages and package changes, including all flavors, varieties, package sizes, etc. At their service are the entire resources of the test kitchens to validate the statements, plus a library of more than 17,000 tested consumer recipes and 1500 tested quantity recipes for the institutional trade.

Editorial Services works closely

with the package designer. Before any layouts are made, the package copy is written in preliminary form so that the designer has an advance guide to how much text he'll be working with. After layout approval, the copy is returned to the editor to be adjusted for space, and then is watched through the entire production cycle to the okaying of final proofs.

Before the corporate "request for package endorsement" form is given final approval, General Foods Kitchens must check each proposed package for product name; net weight; ingredient data; minimum vitamin requirements; nutritional and product claims; recipes; directions for use of package or product; photos or artwork portraying use of product; use of GF Kitchens Seal; and package construction or size.

Another company—Coats & Clark, manufacturers of sewing supplies—insures the accuracy of its proposed package directions for sewing the company's zippers by asking a number of people inexperienced in sewing actually to use the directions to sew in a zipper. The company periodically checks consumer reactions to see whether the instructions can be improved.

Address the Audience

Package instructions must be aimed at the consumer who will read them. For example, in the field of veterinary products and agricultural chemicals, packages must in-

clude complete, clear information for the farmer who will be learning how to use the product from the package instructions. A packaging manual prepared for American Cyanamid's agricultural line specifies that directions for use must be stated in simple, practical terms, avoiding grains, grams, cubic centimeters, and kilos where these measurements are apt to be unfamiliar to the user. Teaspoonsful or cupsful are suggested instead. Yield of contents, the manual says, are best expressed in terms of the number

of acres or number of animals that can be treated. Tabulated or blocked-off instructions for mixing or dosage are recommended. The manual points out that it is advisable to state at the outset whether the product treats, cures, promotes, or inhibits—and elaborate with copy that stresses the properties of Cyanamid products.

Remember, the manual concludes, every inch of the package surface should be put to work to create an impression of impeccable quality, to inform, and to sell. ♦

What Is GNP?

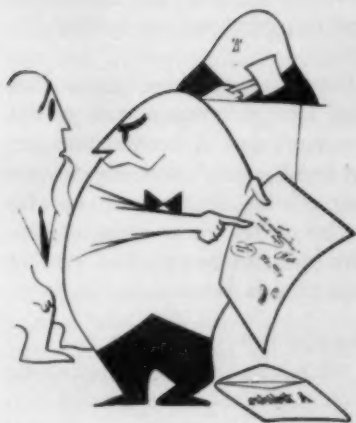
MOST ECONOMIC FORECASTS use the Gross National Product, or GNP, as a major yardstick—without ever saying what it's made of. Although its full definition would require a long essay, here is a shorter description offered by The Biddle Survey:

You can break down GNP into four main ingredients: (1) What the population spends for goods and services; (2) the total of private domestic investment; (3) net exports of goods and services; and (4) the total spent by government for goods and services.

The first ingredient, called "personal consumption expenditures," goes into GNP as the total market value of all services and goods bought by persons and nonprofit institutions; but it also includes whatever a worker may get *as income* in the form of food, clothes, housing, or other compensation. Lately it has run close to 330 billion dollars.

The second ingredient, private domestic investment, includes all new private construction, which covers dwellings, factories, and even oil wells; it includes new machines and equipment bought by business; and it includes the *change* in business inventories—the change in their physical volume, valued at average prices of the period.

The third item—net exports of goods and services—is self-explanatory. The final ingredient is the total paid by all city, state, and federal governments for salaries and wages—for firemen, teachers, police, governor of the state, and the mailman who brings your tax bill. Also counted are the huge sums spent by these governments for supplies, for heat and light, for window washing, Cape Canaveral rockets, and other military and defense costs.



Why Stockholders Go to Court

By Harlan Byrne

Condensed from The Wall Street Journal

A RISING NUMBER of corporations are being troubled by stockholder suits—litigation brought against them by shareowners. In a recent year, 73 such suits were filed in federal district courts—up from 53 a year earlier. Many other suits are brought in state courts. Throughout the nation, lawyers estimate, several hundred stockholder suits are filed in the course of a year.

Stockholder suits seek to rectify the actions of executives, board members, or other parties where such actions allegedly damage the company and, in turn, the interests of stockholders. Dispute over these suits has divided lawyers into two rival camps.

Declares one attorney who was frequently engaged to defend com-

panies against such litigation: "Stockholder suits are almost 100 per cent opportunism by the plaintiffs' counsel." On the other hand, retorts another lawyer who has represented plaintiffs in many suits against major corporations, stockholder suits "deter crime: Many dubious corporate schemes were not carried through because of fear of stockholder action."

Skulduggery

Stockholder suits stem from a variety of situations. Some spring from charges of excessive executive compensation, overly liberal stock-option plans, or official skulduggery of some sort. Others result from short-term profits of officers, directors, or other "insiders" from deal-

The Wall Street Journal (April 27, 1961), © 1961 by Dow Jones & Company, Inc.

ings in the company's stock. Allegedly harmful mergers, acquisitions, and dealings with affiliated concerns may also prompt stockholders to sue.

Most stockholder suits end in legal victory for the corporation. But a court ruling in favor of a stockholder can have a substantial impact on a company's affairs. One large coal company, for example, was forced to abandon a new executive pay program. A major steel producer had to revamp its executive compensation system. A motion picture studio had to alter its stock option plan: To settle a suit last year, five officers and directors of the studio agreed to pay the company three dollars a share over the option price for each share purchased under an option plan.

Costs of a Fight

When a corporation decides to settle a stockholder suit out of court, it does not necessarily believe it's in the wrong. Instead, it may merely decide that the costs of fighting the case in court are likely to run so high that the company would lose in the end, whatever the court decision.

"When a complicated case goes to trial and drags on for several years, a corporation's legal fees can run to several hundred thousands of dollars," says a Wilmington, Del., attorney who has represented corporations in a number of stockholder suits. In one lengthy suit

concluded recently, a corporation's legal fees exceeded one million dollars.

Corporate attorneys stress that legal fees are only a part of the company's cost of stockholder suits. "In many cases," says one lawyer, "top officials of the company may be tied up for weeks giving depositions and testimony. The cost of their time is incalculable."

Opportunism

While conceding that stockholder suits sometimes serve a valid purpose, company attorneys insist that many are instigated by lawyers seeking large fees rather than by shareowners. A shareowner can't expect any direct financial gain from winning a suit, although the value of his shares might rise modestly if the court ruling allows the company to recover funds. His attorney, on the other hand, may be awarded a substantial fee by the court. In some cases, this fee runs as high as a fourth or a third of the recovery, and there have been fee awards of \$500,000 or more.

Company attorneys also say that, in most instances, plaintiffs own less than one hundred shares. Frequently, too, a plaintiff doesn't know what his suit is all about, and—corporate defenders complain—it's not unusual for lawyers' wives and relatives to be listed as plaintiffs.

Corporate legal staffs also view with suspicion the fact that one

stockholder suit will frequently be followed by several additional ones that are almost carbon copies of the original complaint. This, it's argued, is an attempt by the lawyers who file the later suits to combine their cases with the original, in hopes of sharing any eventual fee.

Some lawyers concede that they occasionally do seek out stockholders who will sue, though they insist there is nothing questionable about their tactics in these instances. One New York attorney tells, for example, how he came to handle

the suit which led to a revision of a steel company's executive pay plan. Four years ago, he read a story in a New York newspaper assailing fat executive bonuses at the company. The high payments irritated him, he explains, and he expressed his indignation to some acquaintances. One of them put him in touch with another lawyer who had relatives who were company shareholders. The relatives were willing to bring a suit over the matter. "It's not too hard to find stockholders who will sue," the lawyer observes. ♦



"I guess when he'd worked himself up to this big pitch about us all rolling up our sleeves and putting the campaign over with a great big bang, I really shouldn't have yawned."

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CAPITAL SPENDING:

Toward a New Boom?

Condensed from Business Week

CAPITAL SPENDING by U.S. business will soon be on the upswing again. And this time the upturn might become a real capital-spending boom. Business will soon be getting the strong support from plant and equipment purchases needed to turn this spring's budding but still hesitant recovery into a humming business expansion by autumn.

The promise of an upturn in capital spending in the second half of 1961 is the key finding in a recent McGraw-Hill capital-spending survey. For 1961 as a whole, the survey shows that business now plans to invest 35.35 billion dollars in new plant and equipment. This is down one per cent from the 1960 figure—but the drop in the year's figure is due solely to the recession-bred low rate of 34.3 billion dollars in the first half of 1961.

Three Billions More

In the second half of this year, companies must step up their capital outlays if they are to bring spend-

ing to the level they forecast for the year as a whole. The McGraw-Hill Economics Dept. estimates that business will spend at an annual rate of 35.5 billion dollars in the third quarter and at a rate of 37.3 billions in the fourth quarter. The second quarter is the low point of the year, with a rate slightly above 34 billion dollars. Thus, capital spending should rise more than three billion dollars, at annual rates, from the second quarter to the fourth quarter of this year.

A Minimum for 1961

These figures actually should be regarded as a minimum for 1961. During upswings, business always tends to underestimate its spending plans, revising them upward as time goes on. This is already happening: Business now expects to spend 280 million dollars more this year than it talked about last fall.

Even without these upward revisions, the 37.3-billion-dollar rate of spending estimated for 1961's fourth quarter comes close to a

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record. It will be the second highest quarterly rate on record, just below the 37.75-billion-dollar rate in 1957's third quarter—the peak rate during the 1954-57 capital-spending boom.

To be sure, with prices higher and the economy bigger, 37 billion dollars now does not constitute so hefty a capital-spending boom as it did in 1957. But this rate will be reached early in the upswing—and does not look like the top for this business cycle.

Hope for a Tonic

The survey holds out the hope that a genuine capital-spending boom may be in the making—a tonic for the sluggishness that has plagued the U.S. economy since 1958. Previous capital spending booms have been caused by a need for business to expand productive capacity; this new upswing in capital spending comes in a time of excess capacity. But now that capital spending is ready to turn up again, this excess capacity stands as a helpful control on the nature of the plant-and-equipment revival.

In the years immediately ahead, the growth of capital spending will be powered not by booming (and inflationary) demands, but by industry's continuing drive to modernize, to increase productivity, and to introduce new products and processes. This kind of capital-spending boom should make the coming business expansion smoother and

possibly longer-lived than the last.

Research and development efforts lie at the root of industry's plans for growth. All industries, without exception, intend to increase their R&D spending between 1960 and 1961. With the exception of aircraft—which now expects level R&D spending through 1964—all industries plan to boost R&D again between 1961 and 1964. In addition, the survey shows, 84 per cent of the R&D spending by business—leaving out aircraft—will be going for commercial rather than military products.

This intensified research spending is stepping up the rate at which business is introducing new products. In 1960, new products—defined for the purpose of the survey as products not made four years earlier—made up 10 per cent of manufacturing sales; by 1964, they will account for 14 per cent.

Potent Push

An even more potent push is being given to capital spending by plant modernization—the introduction of new processes and machinery to produce present products more efficiently. Modernization will continue to be the backbone of capital spending in the years immediately ahead, as it has been since 1958.

In 1961, manufacturers will devote 70 per cent of their capital spending to modernization, a record level. In only one industry—chemi-

cals—will it be less than for plant expansion.

In every industry except transportation equipment, the expected increase in sales exceeds current plans for adding to capacity. Thus, industry as a whole should be able to bring its operating rate closer to its preferred percentage of capacity in the next few years.

Even before preferred capacity rates are reached, over-all expansion will be under consideration in many industries:

- Some industries—like paper and pulp, rubber, and food and

beverages—are already close to needing added capacity.

- Some industries do not expect ever to operate all of what is being carried as spare capacity. U.S. industry is carrying an estimated 95 billion dollars' worth of obsolescent equipment. This affects the base figure for current capacity.

- Some industries will not wait until they reach preferred operating rates to expand capacity. Judging by the course of earlier capital spending booms, they will step up programs to bring more capacity on stream in time. ♦

Offbeat Indicators

TAKE A CAREFUL LOOK at the size of the hole in a doughnut. Next, flip to the classified section of your newspaper and find out how many help-wanted ads are running. Then, run out to the local race track and count the house, or, better yet, check how many bettors are queuing up at the fifty-dollar and hundred-dollar windows.

Sounds like a scavenger hunt—but the results produce a surprisingly accurate business barometer, reports *Newsweek*. These varied observations, known as offbeat economic indicators, supply nearly the same reading as such standard business statistics as gross national product, new orders, and unemployment reports.

There is some logic behind most offbeat indicators. The hole in a doughnut, for example, grows smaller in bad times (meaning more cake, less air); bakers figure they've got to offer their customers more for their money in lean times. The bettor is more likely to take his chances at the track when times in general are prosperous. And help-wanted ads—reflecting changes in industry's hiring practices—suggest where business will be heading several months later.

Many companies have their own pet barometers. Minnesota Mining & Manufacturing, for example, keeps a careful eye on sales of sandpaper (used in every industry)—which pick up, says one 3M man, "a little bit ahead of the economy in general." Wheels, Inc., a Chicago auto-leasing firm, calls the turns from the number of miles salesmen drive during their sales rounds. Says a company spokesman: "When sales come easier, the salesman quits earlier."

Performance Appraisal

and

Executive Morale

■ **Mortimer R. Feinberg**

President, BFS, Inc.

RARE INDEED is the executive who looks forward to conducting appraisal interviews. Even though it's necessary to have some provision for evaluating the work of subordinates, informing them of their strengths and weaknesses, and helping them to chart their future courses, most executives dread the moment when they have to sit down with a man to point out his shortcomings. The task is difficult enough when the subordinate is at a junior level, but when he, too, is a manager, it poses special problems—and the higher he ranks in the organization, the more difficult it becomes.

After all, a manager ordinarily has more than an average share of ambition and intelligence; if he

didn't, he wouldn't be a manager. He's accustomed to giving orders and making decisions himself, and it is understandable if he isn't altogether kindly disposed to becoming the subject of a searching evaluation and discussion of his weaknesses. Moreover, as a manager himself, he is likely to be much more sensitive to any traces of condescension, hypocrisy, or insincerity that he detects in his superior, and he will instantly recognize and resent the use of superficial gimmicks or pat techniques of appraisal.

In short, a manager is jealous of his hard-won dignity and status in the organization, and he will oppose anything that appears to threaten them. Unless executive appraisals

A MANAGEMENT REVIEW SPECIAL FEATURE

are handled with adroitness and sensitivity, they are certain to have a seriously detrimental effect on executive morale throughout the company.

Appraisal Without Tears

Nevertheless, appraisal interviews are vital elements in management development, and the responsibility of conducting them cannot be avoided. The question is, how can they be conducted without stirring up bitterness and resentment in the company's management ranks?

Part of the answer lies, of course, in the nature of the company appraisal program, but at least as important is the way the program, whatever its formal structure may be, is handled by the individual executive.

Many managers have a tendency to use appraisals of their subordinates as a cure-all for previous errors and omissions. A manager must manage every day. If he does, his subordinates have a fair idea of where they've succeeded and where they've failed, and the appraisal won't come as a shock to them. If he doesn't, all his praise, blame, and advice may snowball into one big bundle, the delivery of which is dreaded by both superior and subordinate. Or even worse, he may be so out of touch that he won't know the important things to say in an appraisal and will fasten instead on chance, irrelevant observations.

It takes considerable skill to communicate appraisal in a way that helps the individual. It's not enough to "get it off your chest." It's not enough to speak tactfully, to "leave him laughing," or even just to be understood. The goal of appraisal is nothing less than constructive change, reflected in increased job efficiency.

Here are some suggestions, based on both experience and research, that should help managers develop more skill in conducting the appraisal interview. Some of these suggestions are quite simple; others, it must be admitted, are easier to state than to follow. Nonetheless, they are important, and every executive who must appraise his subordinates should be aware of their implications.

1. Know Yourself

The age-old need to "know thyself" is important for everyone, but it is doubly important for the executive who must evaluate the performance of others. A manager cannot fairly appraise another person until he has had a good look at himself.

In the first place, without self-knowledge he is likely to attribute his own feelings and problems to others. Many people take offense at imagined insults—or, on the other hand, take a rosy view of a bad situation because they project their own feelings instead of considering the feelings of the people directly involved.

In the second place, ignorance of self, or a false self-image, breeds insecurity—which, in turn, makes people afraid to take a good square look at themselves or at anyone else. The better a person understands and accepts his own wants and needs, his own approach to work, his own reaction to authority, his own moods and habits, his own abilities and disabilities—the more openly, clearly, and sympathetically he can look at other people.

2. Know the Job

The philosopher Alain once said, "The power of a Caesar or an Alexander rested upon the fact that they had a liking for differences and did not expect pear trees to produce plums."

Often we blunder in appraising a man's performance because we have superficial ideas about his job which he does not share—and perhaps may not even be aware of. In one company, for example, a man was promoted from plant manager to general manager. His idea of the plant manager's job was to be out on the floor most of the time, keeping an eye on operations. This worked out well for him—but the man who was hired to succeed him had a different concept. He believed in delegating supervision to the supervisors, in looking constantly for new and improved methods, and in conducting this search from his desk rather than the factory floor.

To the general manager, the new

plant manager seemed lazy and ineffective—though actually he achieved smooth operation and cost-cutting improvements. The two men were constantly at loggerheads, because their images of the job were worlds apart.

You know what each of your subordinates is supposed to do, but you may not know the best way for *this particular man* to do it. Is he getting the desired results in a safe and acceptable manner? If so, there's no need to worry because his way is different from yours. If not, a change is required—and the first step toward change is to make sure you and your subordinate agree on the essentials of the job.

3. Know the Man

Naturally, it is also necessary to know the man. You should know his special abilities—and help him to apply those abilities to the job. You should also understand his needs and values. Some people, for example, are motivated most by challenge and opportunity; others by money; still others by status.

Some executives fear that knowing their subordinates will make them too soft on appraisal. This doesn't follow. You can respect a man's individuality and still demand that he fulfill his unique potential.

4. Listen

"The biggest block to personal communications," psychologist Carl Rogers has said, "is a man's inability

to listen intelligently, understandingly, and skillfully to another person."

Listening both connotes and creates acceptance. In an appraisal interview, your subordinate may feel that his ego is on the chopping block. Your willingness to listen gives him a chance to criticize, too, decreases his hostility, and makes him more open to suggestions. It indicates that you have a constructive interest in his problems—and that you might even have some answers. At the very least, it gives him the courage to go out and seek answers for himself.

For most active people, of course, listening is hard work. You make up your mind to listen patiently—then one of two things happens: You either drift off on your own affairs, or you listen for a time—till something you hear sets off a reaction. At this point you interrupt, contradict, argue, explain—and your period of intelligent listening is over.

Carl Rogers suggests echoing the other person. For example, the speaker says: "I can't get used to this new system." You say: "The new system bothers you?" and he goes on to explain why. This method should not be continued to the point of absurdity—but it's worth a try. It facilitates listening in two ways: You must listen in order to echo, and the other man has a chance to correct you if you misunderstand him

5. Stress Acceptance

A man's errors are rarely fatal. As his boss, you probably feel that improvement is possible—and this feeling must come across to the individual. You should, precisely, admire his strengths and point out his weaknesses—not to condemn them, but to help him improve.

If, however, you have actually given up on a subordinate—if you feel that his work is not satisfactory and that he can't or won't improve sufficiently to hold the job—you will not help him by going through the pretense of an appraisal interview. Tell him frankly that in your opinion his work won't do; then suggest a transfer to a more appropriate job if this seems desirable, or fire him.

6. Don't Hold Back Criticism

The "sandwich technique" of appraisal has been widely—and mistakenly—advocated. The idea is to start with a compliment to create a glow, then throw in some comments on weaknesses, and close with more compliments. This works out in a number of ways, none of them good.

First, there is the danger that the subordinate won't even hear the criticism. He may remember only his virtues, which were stated more frequently, and in greater detail, than his failings. Second, if the criticism does come through, it may hurt worse for cutting through a compliment. And finally, the subordinate may well recognize this approach as

a technique and resent its insincerity.

An appraisal interview is, or should be, a serious session—not a ping-ponging of compliments. Any criticism you give your subordinate is literally, not hypocritically, for his own good. Therefore, why stall? The discussion might follow this sequence instead: first his weaknesses, second his strengths, third the future.

Most of us, of course, feel reluctant to criticize, but a manager has no right to duck this responsibility. Since he is accountable for the performance of others, he must be ready both to give and to take criticism.

The president of an insurance company reported recently, "One of my toughest jobs is to criticize and to evaluate, but I have learned my lesson—the hard way. Years ago I had a subordinate doing mediocre work—but he wasn't outstandingly bad. So I let him drift. By sheer seniority he kept getting small promotions—and at the same time our business kept getting more and more complicated. By the time he was 45, he was in far over his head; he wouldn't accept demotion and was forced to quit. He never had a responsible job for the rest of his life."

The president's seeming kindness had condemned this man to bitter disappointment and loss at a time in his life when he couldn't make a second start.

One final reason to express criti-

cism: You can't work effectively with a subordinate if you load yourself down with resentment against him. Serious, unexpressed criticism is like a bomb set to explode in time of crisis. Moreover, withholding your complaint leaves your subordinate without even the opportunity for self-defense.

7. Criticize Constructively

Thus, criticism is a must—but there are definite rules for constructive criticism.

- *Be specific.* Don't say "You haven't got the right attitude" or "You should be more careful." Tell him instead of details left undone, of deadlines missed, or of extra costs incurred because of his errors.

- *Relate your criticism to the job.* Except for the rarest of exceptions (when his off-the-job activities would have a definite adverse effect on the company) you have the right to criticize him only in the areas where he fails to do his best and thereby hinders you in the performance of *your* job.

- *Don't make a joke of it.* The story is told that Ely Culbertson once watched a woman massacre a hand at bridge. When it was over, she asked, "Mr. Culbertson, how would you have played that hand?"—and he replied, "Under an assumed name."

There's always a temptation to use the light touch in criticism, but like Culbertson's light touch, it will probably seem pretty heavy-handed

to the victim. Few people have the gift of conveying criticism through kindly humor.

Your well-meant joke may sound to your subordinate more drastic—or more sarcastic—than you intended. It may make him feel small. Even if he accepts it with outward good humor, he may still feel that you're taking him and his problems too lightly.

8. Observe Limits

The path to a man's downfall is often paved with his superior's good intentions. You are not your subordinate's father, his minister, or his psychoanalyst, and certain problems are off limits. If a man's drinking or marital problems interfere with his work performance, then—and only then—should you talk to him about it. And the only advice you should give him is to get professional counseling.

Also resist the temptation to overlook or cover up alcoholism or other emotional problems that interfere with job performance. You have no way of judging how serious these problems may be, and you do people no favor by hiding or ignoring them. You may like to think that you're trying to spare their feelings—but you're actually sparing your own.

9. Emphasize Growth on the Present Job

Contrary to industrial myth, not everybody wants quick promotion.

It is unfortunate that managers often stress the prospects of promotion as if this were the only possible road to achievement. One obvious objection to this policy is that the manager can't keep all his promises, stated or implied. An unkept promise (or what a subordinate considers an unkept promise) causes smoldering resentment, poor performance, and unnecessary turnover of good people.

An even stronger objection to overemphasis on promotion is that it drains satisfaction from the present job. Satisfaction and a sense of achievement should stem from an individual's present accomplishments and his sense of making the fullest use of his abilities—not merely from visions of increased status and power at some future date.

10. Know What Race You Want Him to Run

Demanding compliance in unimportant and superficial areas results in hostilities toward the appraiser.

In our zeal for perfection (of other people), we often spur a man on to do something that doesn't really matter. Nobody can maintain a big push all the time, in every area, and a subordinate will resent especially your enforcing requirements that he knows are not genuinely important to you.

11. Agree on Goals

If you have a real discussion with your subordinate rather than a dic-

tation session, you should be able, at the end of the session, to agree on mutual goals—standards for improvement. This means, of course, *genuine* agreement—not just a grudging “yes” wrung out of either party.

The changes you want in your subordinate's behavior can occur only when you and he see the problem in the same way and agree on the means of solving it. Short of agreement, only surface improvements are possible. This, of course, doesn't mean that if your subordinate raises objections to your point of view, you should immediately abandon it. His objections may be unrealistic. But you should be open to discussion and willing to change your position if it turns out to be wrong.

Don't let the discussion degenerate into a debate. This is the kind of debate nobody wins.

12. Set up a Timetable

Almost everyone works better when he has a deadline. We all have a certain amount of inertia, and a deadline provides the pressure we need to overcome it. Moreover, setting a deadline helps us to get started on a plan to meet it.

When you and your subordinate have reached agreement on a change in the way he does his job, the next step is to agree on a date by which the change is to be accomplished. If it's a complicated change (like reorganizing work

that involves several people), it may be a good idea to set intermediate deadlines for progress reports.

Setting up a timetable ends the discussion naturally and constructively with a plan for accomplishment during the coming year.

Benefits and Dividends

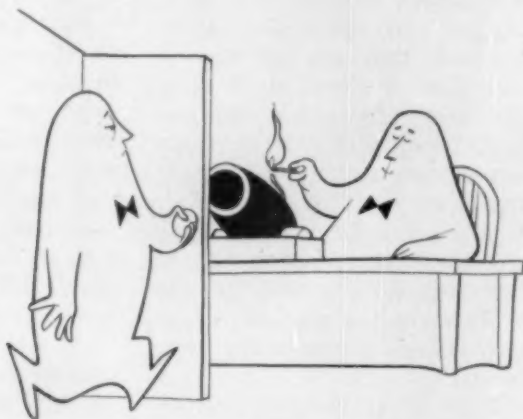
Each company has its own ideas on what aspects of work should be appraised, how they should be rated, and what weight should be given to different factors. Furthermore, not only each company, but each job, each manager, and each subordinate is unique. An executive will get maximum mileage from appraisal when he understands and respects the differences.

An added dividend can also accrue from a well-handled appraisal of a subordinate who has other people reporting to him: If the manager being appraised leaves his boss's office with a feeling that something worthwhile has been accomplished, he will be likely to approach the appraisal of his own subordinates with a healthy and positive attitude. And he can use what he has observed during his appraisal when he is conducting interviews with his own subordinates. This chain reaction can do much to insure that the appraisal interview will not become a *pro forma* exercise, dreaded by all concerned, but a vital part of the company's management-development program. ♦

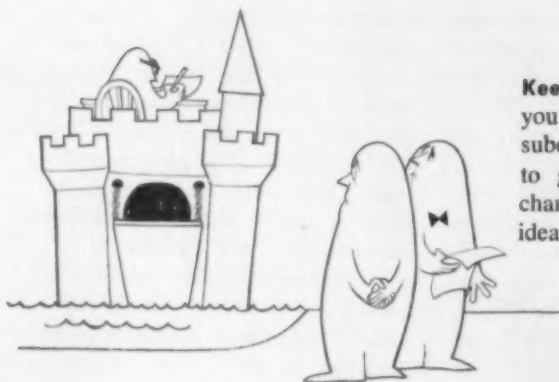
Moment of Truth

Guides to the Appraisal Interview

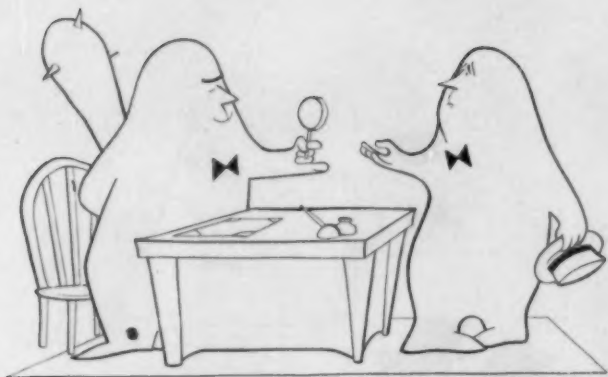
If the appraisal interview is so important, why does it often produce such disappointing results? The techniques followed by some executives may offer a clue to the answer . . .



Surprise Him. You're just too busy to let him know from time to time how he is doing, so why not save everything for the annual showdown?



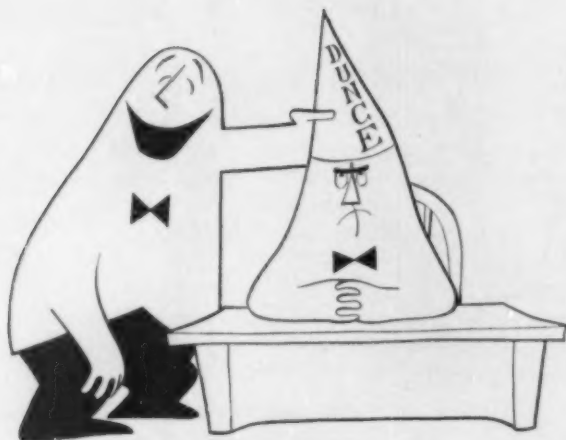
Keep Your Distance. Once you learn what makes your subordinates tick, you'll have to go to all the trouble of changing your preconceived ideas.



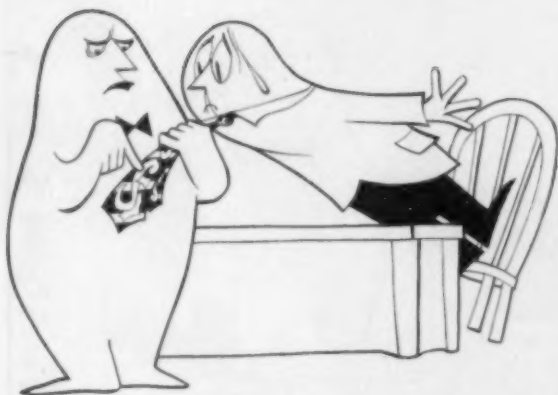
Use the "Sandwich" Technique. Some glib compliments will keep him in suspense until you're ready to tell him what's really on your mind. After that, a few kindly platitudes will at least make *you* feel better.



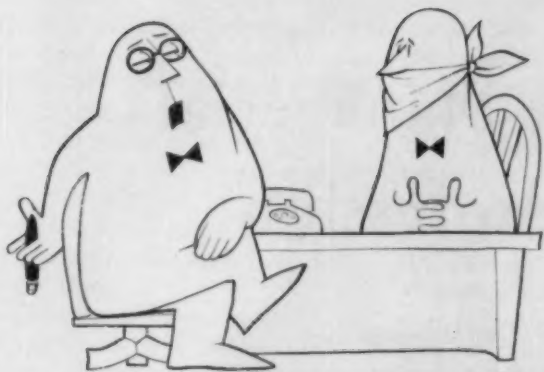
Kill Him with Kindness. Criticism is embarrassing; better to keep jollying him along. In his next job, he'll cherish the memory of your humanitarianism.



Keep Him Laughing. No need to pull a long face—make little jokes about his inadequacies. Everybody appreciates humor, even if it's at his own expense.



Make It Personal. Here's your opportunity to point out everything you disapprove of in his private life—even if it has nothing to do with his work.



Do All the Talking. Don't listen to his ideas, explanations, or plans—they'll just disturb the flow of your carefully prepared remarks.



Emphasize Promotion. Never mind whether he has the ability or the inclination to handle a bigger job—make it clear that pushing up the ladder is the only thing that counts.

■ Text by R. F. GUDER

■ Drawings by AL HORMEL

The Managerial Profession

By Vannevar Bush

Condensed from Industrial Development and Manufacturers Record

THE PRIMARY RESPONSIBILITY of the officers and directors of a company is to render that company successful. Competition may be intense, labor may sometimes be unreasonable, customers fickle, bureaucrats oppressive, laws absurd. But in spite of hell and high water, within the limits of the law, and with decency and just dealing, it is the prime duty of management to make a profit. Unless it does, it will not long be present to do anything else.

But, for a successful company, this is not enough. In a democratic society, and in the long run, a corporation will not be allowed to exert its great economic power without harassment unless the public believes that it is operating for the public benefit.

Consider the dozen best businessmen you know. What are they doing? They are guiding a complex,

difficult enterprise—first, so that it will be successful and second, so that it will constitute a healthful and worthy segment of the society of which it is a part. They are balancing their obligations to all the groups with which they deal. They intend, by their efforts and by their wisdom in drawing strong men around them, to safeguard and enhance the savings of stockholders, to deal justly with their employees and merit their respect and confidence, to fill the genuine needs of their customers honestly and with skill, and to do all this within the spirit and the letter of the law. When they do all these things, they—as have generations of professional men before them—are ministering to the people.

Central Theme

This is the central theme of any true profession. It is not just service, humbly rendered. It is guidance,

Industrial Development and Manufacturers Record (April, 1961), © 1961 by Conway Publications, Inc.

extended with pride and authority. There is no renunciation, no turning away from the ways of the world. The profession is a part of the society in which it acts. Its members intend to obtain a proper share of the world's goods, in order that they may act effectively. But their primary object is to minister to the needs and welfare of those about them.

Some businessmen are interested in public acclaim, but not many. Some, of course, are fakes and mountebanks, and not true professional men at all. But the genuine professional exerts his best efforts in order to win, over the long run, the respect of those whose judgment and whose standards of judgment he respects. If a man's life is devoted to ministry to the people in this sense, and if his reward is the respect of the best of his peers, then he is a professional man. And, as such, he is the cement that has held society together since it first began.

A Different Profession

The profession of business management differs significantly from the older professions. The ministry of the lawyer, or physician, or clergyman is usually a personal ministry—the guidance and comforting of individuals in trouble. The professional businessman, on the other hand, deals principally with groups of people. He judges forms and formulas, rather than individ-

ual needs and desires. His personal contacts are usually limited to his direct associates, to those doing the same sort of thing in parallel organizations, and to representatives of broad groups and interests. This relatively new form of professional activity lacks the central, personal feature of the old professions. This is inevitable under the complexity of modern society. Yet the profession of business has developed in spite of it, and will continue to do so.

Hope for the Future

In the development of the concept of the manager as a professional man lies much of the hope for the future of the free-enterprise system. Laws can reduce the machinations of men, but one cannot legislate morality. A sound code of ethics in business—unwritten, but understood and generally adhered to—will be created only by the professional attitude. Fear of the law is always limited among energetic and ambitious men. The fear of disapprobation by one's fellows and peers is far more persuasive, and is the force that distinguishes a civilized society.

It is not fully recognized that the profession of management exists. For those who believe in our system and who would perpetuate it, there is no more rewarding effort than to see that this recognition becomes general and real. This does not mean organization or propaganda.

It means, in essence, that the professional attitude will be enhanced and emphasized wherever men of business gather. It means especially that neophytes starting up the ladder to greater responsibilities become early inculcated with the professional spirit, as they see it exercised by those above them.

It means, above all, that there will be an increasing solidarity among members of the profession

—not in formal ways, but in those subtle influences that are exceedingly powerful, in the growth of mutual understanding, in willingness to talk frankly in a professional way, in an exclusiveness not formally defined, but understandable, that makes it clear that true membership in the professional group is highly desirable, and to be obtained only by living the life of a professional man. ♦

Apparatus That's Almost Alive

U.S. LABORATORIES are staking about three million dollars annually on research in a virtually unknown field of science, reports *Business Week*. The field is *bionics*—an attempt to use biological systems as models for machines.

This means not only the study of how biological systems function, but an attempt by scientists to describe the function of certain organs—such as the eye and the ear—in the form of a mathematical equation. The final step will be to reproduce the relationships of this equation in a piece of electronic equipment—a man-made machine that will perform with near-human ability.

Why pattern machines after biological systems? Study of the frog indicates the reason. When a frog is hungry, its eye screens out all unnecessary information—everything except the moving fly it needs for food. Similarly—if scientists can arrive at that point by way of a mathematical formula—a satellite's eye could adapt itself to what the satellite needs to know, and pick out the precise information it is sent up to get.

Recent progress is sufficiently encouraging to indicate that the attempt to devise biological machines is within the realm of possibility. Scientists at Cornell Aeronautical Laboratory, for example, have constructed an experimental machine that is able automatically to identify objects or patterns, such as letters of the alphabet, more or less as the human sensory and brain system does.

This opens up some almost fantastic prospects for industry, as well as for the military and the medical profession. Bionics promises to bring, among other things, machines that read and report, and machines that hear and understand. On a more down-to-earth scale, development of the science to a hardware status would mean better and simpler television picture reproduction; and telephone-equipment makers would profit with more efficient telephone equipment.

KEEPING Office Forms UNDER CONTROL



By Linden C. Speers

Condensed from Management Controls

OFFICE FORMS are the basic tools underlying every business transaction and procedure. With an estimated eleven million employees handling the numerous forms used in business, the potential for reducing office costs through vigorous forms control is almost limitless.

A thorough forms-control program has a three-fold purpose:

- Elimination of superfluous forms.
- Improvement of essential forms.
- Control of new and reordered

forms by analyzing procurement and storage, design (layout, specification, construction), processing, and filing.

Full-Time Job

Where the size of the company warrants it, forms control should be a full-time activity, with a permanent staff of one or more people, preferably with procedures experience.

All requisitions for forms would be approved by this section, to insure a continual review as each

Management Controls (March, 1961), © 1961 by Peat, Marwick, Mitchell & Co.

form was reordered. The files of this section would tell, for all vital forms, who prepares them, how they are prepared, and who uses them. Review includes such questions as:

- Is each form properly designed?
- Will another already on hand serve as well?
- Will a change in form construction reduce costs or improve efficiency?
- Should forms be purchased or should they be duplicated internally?
- Are quantities correct?

Pilot Project

If you are initiating a form-controls program, start with a pilot project. Try and spot the poorest form in use, or an area where clerical procedures seem particularly troublesome. Document the operation affected by exhibiting the forms on a panel. Then prepare a flow chart to show how the operation fits into the over-all clerical system. This provides a convenient way of reviewing the problem and formulating a solution.

An estimated 85 per cent of the cost of running an office goes for labor. Thus the goal in this part of the forms review is to find ways to cut down the motions required to perform the operation. This may be accomplished partly through eliminating unnecessary forms, reports, methods, and procedures, and simplifying the remaining ones.

Once you evolve a proposed solu-

tion, follow the same review steps to compare potential savings in time, effort, and expense.

Where forms design is a full-time operation, it is best left to a qualified specialist working with a methods-and-procedures analyst. The person whose operation requires a new form may not be an expert on forms construction and design, and may not be aware of the form's effect on other operations in the department. The trained forms specialist can usually supply this overview.

When a new form is needed, design becomes very important, and the principles of good forms development come into play. The specialist will plan for:

- Logical sequence and arrangement of items.
- Minimum of required writing.
- Adaptability of the form to machines.
- Best method of reproduction.
- Economy of space.
- Proper size for filing.
- Ease of reading or posting.
- Ease of identification.

Dramatic Savings

Important savings have accrued to many companies that have instituted forms-control programs. For example, one company reported the elimination of 100 out of 415 forms in a year's time; another reported that during the first year of its control program, 480 forms out of 3000 reviewed were thrown out and

100 new ones added, for a net reduction of 380 forms; a third company reduced the number of forms necessary to process a customer's repair order from 67 to six!

Dramatic savings are not the only kind. A small saving on a job of high frequency can be just as important as the dropping of a large job. For example, an average typewriter key stroke takes an estimated .0036 minutes; dropping 275 key

strokes from typing one form would save less than a minute for the average typist. On 10,000 forms, however, this adds up to more than twenty man-days.

Once a forms-control program is firmly entrenched as a basic part of office cost reduction, it should not be treated as a sporadic activity to be emphasized when the heat is on, but rather as a continuing management function. ♦

A Weather Eye to Profits

PROFITS in many companies are no longer "gone with the wind," writes Frank M. Kleiler in the Chicago Chamber of Commerce's magazine, *Commerce*. Over one thousand companies either employ staff meteorologists or regularly use the services of meteorological consultants. Their purpose: to minimize losses due to bad weather.

At E. I. du Pont de Nemours and Company, for example, the Engineering Department's Weather Advisory Service helps schedule work on construction projects. It alerts the operating and maintenance personnel to threats of rain, tides, floods, wind, and cold so that property can be protected. It helps decide where new plants should be located. It assists in making sales forecasts. It even helps plan cafeteria menus: The demand for soup is greater on cold days, the demand for salads is greater on hot days.

Du Pont finds that expert forecasters are useful in controlling inventories where variables of weather are involved. Paint sales climb when weather is encouraging for painters. Sales of anti-freeze hit their peak following the first night the thermometer drops to 32 degrees. A rainy spring spurs the demands by farmers for fungicides.

This corps of private weathermen was created by Du Pont when it needed special weather information that was not available—or that was available only in a limited way—from the local public weatherman. The company meteorologists, however, depend upon the U.S. Weather Bureau for most of their information.

Esso Research and Engineering Co. is another firm which has meteorologists on its staff. Many operations within the petroleum industry are directly affected by the weather. To solve production and distribution problems—especially of oil for residential heating—the company requires the best possible forecasts. Peak winter needs for heating oil are met not only from production during the heating season but from inventory built up during the summer; operations in warm weather must be scheduled on the basis of estimates of how cold the next winter will be and how long it will last.

Value Analysis Is Here to Stay

By Robert A. Kelly

Condensed from Sales Management

OFF TO A SLOW START some eight or ten years ago, value analysis as a purchasing philosophy is finding new acceptance in virtually every industry. Company after company is discovering how a good value-analysis program, properly planned and applied, can save thousands of badly needed dollars.

The value analyst's function is, obviously, to determine value. To do this, he must arrive at the minimum cost at which a particular product, material, or service performs its intended function. This means he must be aware not only of the exact function of each piece of vendor equipment, but also of every conceivable alternative for achieving that function. This involves a study of all related costs, the properties of certain materials, delivery schedules, technical considerations, and many other factors.

Punching Holes

In many companies where value analysis has taken firm hold, the purchasing director schedules peri-

odic meetings with experts from various departments. At the meetings, all efforts are aimed at punching holes in the current method of accomplishing a certain function. For example, a value-analysis committee may ask: Why are we using this kind of stainless steel? Would cast iron do as well? Must we heat treat? Have we thought of strapping instead of bolts? Have you heard that a copper alloy is now available and would be cheaper to buy?

If no alternative can be found for that function, it is considered to be performing satisfactorily—for the time being. A month later, the same process will undoubtedly be repeated.

The value-analysis team frequently includes suppliers. For example, reports D. O. Millar, engineer in charge of the value-analysis section in Allis-Chalmers Manufacturing Company's purchasing department, "A recent value-analysis task-force team studied an electrical assembly in an effort to reduce its cost of manufacture. A metalworking sup-

Sales Management (April 21, 1961). © 1961 by Sales Management, Inc.

plier, called in by the purchasing department, examined a drilled and slotted part machined from steel tubing, then announced that his company could produce the part far less expensively. He actually reduced the cost per unit from \$1.40 to 6.7 cents by punching the part from flat sheet steel and then rolling it to obtain the required cylindrical shape. That's a case of a supplier with specialized knowledge and equipment helping us achieve substantial savings."

Value-analysis techniques can be applied to advantage in other areas, too. Reports Millar: "Recently a purchasing agent observed that a latch costing \$14.10 was being used for a small access door in a sheet-metal transmission guard. A brief study determined that a mass-produced, lightweight latch costing 28 cents would do the job as well. Another big saving with no loss of essential quality."

Top Management Cooperation

A great majority of the value-analysis programs now in operation have the complete backing and continuing cooperation of top management. This cooperation is essential: Value-analysis specialists—either operating within the purchasing department or acting separately but in liaison with purchasing—must have the authority to question application, use, and design throughout the manufacturing phase. Top- or even middle-management

curbs on value-analysis authority seriously hamper, if not destroy, the program's potential worth to the company.

At General Electric, value-analysis tasks are handled by a value specialist, L. D. Miles, who brings to a project new information on materials, processes, and functions, with potential cost advantages for the designer, the production engineer, and the buyer. He shows where value is not being received for money spent. And he is concerned with putting vendor salesmen to work as specialists on their products as they apply to GE use.

Check List for Value

Vendors are important to the success of a value-analysis program. Just as a company seeks maximum value from the equipment it buys, it also requires maximum value from the supplier organization itself. The following check list, adapted from GE's, sums up the values your company should receive from vendors:

Reliability: Is the supplier organization reputable, stable, financially strong? Are the vendor's ability and integrity proved by past performance? Will he adequately warrant quality and performance of his product? Does he have a value-analysis program for his own products, assessing added features and economies? Does he offer savings along with product improvements?

Technical Capabilities: Does the

supplier have a program of creative product development or materials improvement? What are his past results? Will he provide engineering help for his product's installation, application, and service? Will he provide analytical engineering that will help improve the efficiency of your basic processes? Will he help train your operators? Will he provide design assistance? Can he handle special needs and designs? Does he provide technical leadership that can benefit you in the future as well as assure that present offerings are up to date?

Service

After-Sale Service: Does he have a service organization available when and where you may need it? Is emergency service dependable and reasonably priced? Will renewal parts be available when you need them? Will the supplier help set up a preventive-maintenance program for the equipment he has provided?

Availability: Will the supplier assure on-time delivery? Are stocks available locally? On short notice? Does he have reserve production facilities to meet emergency demands? Does his standardized or repetitive manufacturing procedure offer quicker delivery? Does he have commitments to other customers which could affect an order? Can he plan shipments to minimize your inventory? Can he be depended upon to provide a steady flow of products or materials?

Buying Convenience: Does the supplier offer a full line of related products? Can he assume full responsibility for coordinating systems and projects? Does he offer suitable credit arrangements? Does he package his product conveniently? Does he have a local sales contact and is he qualified to help? Can he call upon specialists for difficult problems? Will he help cut extra costs, like qualifying visits, telephone calls, lab tests, incoming inspections, spoilage and waste, rejects, and complaints?

Sales Assistance: Will the supplier's reputation enhance acceptance of your product with his product as a component? Will he provide selling aids? Does he help develop mutual markets? Will the appearance of his product enhance the appearance of yours?

The Customer Buys Value

"Value," concludes GE's Miles, "is what the customer buys. In a highly competitive cost-price squeeze, materials management must get better value in purchased parts and, further, must see that value is introduced all along the manufacturing process to insure best value in the finished product.

"In achieving these better end-products, value cannot be a part-time consideration or be haphazardly applied. It has to be thoroughly integrated into the product-flow system and all areas of the enterprise." ♦



Our Man in Washington

By Paul W. Cherington and Ralph L. Gillen

Condensed from Harvard Business Review

IN THE YEARS AHEAD, the federal government will be exerting more (and new) pressures on U.S. industry. Whether through expanded spending for missiles and unemployment, greater efforts to regulate "bigness," or changes in tax policy and depreciation rates, President Kennedy and his aides—with reasonable Congressional approval—will have important effects on business plans, practices, and progress.

Unlike the 1930's, these pressures are not likely to lead to open warfare between business and government. President Kennedy, in a recent speech, emphasized that government success depends on business success and that "far from being natural enemies, government

and business are necessary allies."

If government and business do function cooperatively, it will be, in significant part, because of the effectiveness of a little-known business specialist: the Washington representative of the national corporation.

This man may head a large staff of a hundred or more people, or he may be a "lone wolf." He may be trained as an engineer, salesman, lawyer, economist, or military officer. He may have come to his job from long service with his company or from government service as a military officer or civil servant. That he has been labeled everything from "executive salesman" and "lobbyist" to "five per center" and the company president's "right arm" reflects

Harvard Business Review (May-June, 1961), © 1961 by the President and Fellows of Harvard College

how unclear to many people is the part he plays.

Just what is his role? Research conducted by The Brookings Institution shows that the Washington representative must handle a wide range of activities for his company. Three areas predominate:

Marketing. Commonly, the Washington representative is heavily engaged in stimulating the sale of his company's products or services to the government—directly or indirectly, for now or the future. Though he rarely takes an order or signs a contract, he plays a major role in his company's marketing program, through "missionary" selling, "bird-dogging" sales leads, soliciting research and development contracts, participating in the development of specifications, and assisting nongovernment customers of his company to sell to the government.

Relationships with executive departments and administrative agencies. Dealing with the Administration takes a substantial part of a Washington representative's time. His functions include:

- Serving as a listening post: supplying company headquarters, plants, and sales offices with general intelligence on pertinent government plans and decisions.
- Furnishing help and information to government agencies by answering questions directly or by serving as a "bridge" between the agencies and company personnel—from whom, for example, technical

data are desired or whose participation on a temporary advisory committee is needed.

- Transmitting company points of view to government officials on matters ranging from regulations to broad economic policy.

Legislative activities. Contrary to the popular notion, a Washington representative does *not* typically spend much time on legislative matters.

Few representatives are actually registered lobbyists, and still fewer are heavily engaged in influencing legislation. Many, of course, "keep their ear to the ground," report to their superiors on bills of prospective interest, and know the Congressional delegations from their home states. However, they seldom personally communicate to Congressmen corporate positions on specific bills.

Counsel and Contact

Washington representatives carry out two other major functions in the legislative area. One is counseling the "folks back home" on the positions and actions *they* should take in light of the potential impact on company operations or profits of a given bill. The other is participating in the legislative programs of large business groups (such as the Chamber of Commerce and the National Association of Manufacturers) and trade associations.

In order to carry out these several responsibilities successfully,

the Washington representative must maintain close and continuing contact with a variety of government officials. Equally important is maintaining close and continuing relations with company officials. The representative who becomes isolated from his company does so at his peril. If he fails to keep abreast of company plans, programs, and problems, or if he fails to maintain the confidence of both his superior and a wide range of company officials, his usefulness is seriously impaired. As a bridge between the company and the government, the representative must maintain both abutments in good order.

For companies with Washington offices, there are several important areas that appear to be taking on greater significance and in which their representatives are likely to become increasingly involved.

Future Involvement

International Field. One of these areas is the international field. In part, this interest is defensive, aimed at combating an increase in foreign imports that compete with the company's products in domestic markets. In the future, Washington representatives may have expanded responsibilities for contacts with commercial attachés of foreign embassies, plus greater participation in their companies' relationships with Treasury and State Department officials on balance-of-payments issues. Such an issue was the recent

Ford tender for stock in its British subsidiary.

R&D Spending. Another area which seems likely to demand an increased amount of attention from Washington representatives is R&D. Research and development contracts (or information about government research and development that might lead to contracts) is of prime importance to many companies. As one representative explains, "We're emphasizing the scientific side more than ever before. Fifteen years ago, the government spent about 100 million dollars for research and development; today it spends over three billion dollars. And the amount is going up all the time."

Future Status

According to a survey conducted among Washington representatives themselves by The Brookings Institution, the representative will probably have in the future a more prominent role in the upper policy councils of his company. This will depend, however, on the company's attitude: If the company places greater emphasis on political and legislative action, then the role of the Washington representative almost inevitably will increase in importance. Some of the representatives believe that Washington representation will gain in corporate stature primarily as a reflection of the increased importance of government "hardware" and R&D contracts to industry.

An increasing number of representatives will report to the company's chief executive officer or at least to an executive vice-president, representatives anticipate. Fewer representatives will report through functional headquarters officers, such as vice-presidents in charge of marketing or government products, or the company's general counsel.

Several representatives expect that more Washington representatives will become officers of their companies, with vice-presidential rank. Such an upgrading, they maintain, would help them better discharge their duties. And increased rank, they feel, would be a natural outgrowth of broadened and increased responsibilities. ♦

Service for Your Special Library

SPECIAL LIBRARIES are on the increase. Aware of the rapid advances in science, technology, and management techniques, many companies have created, or expanded, their own facilities for collecting, organizing, and disseminating information.

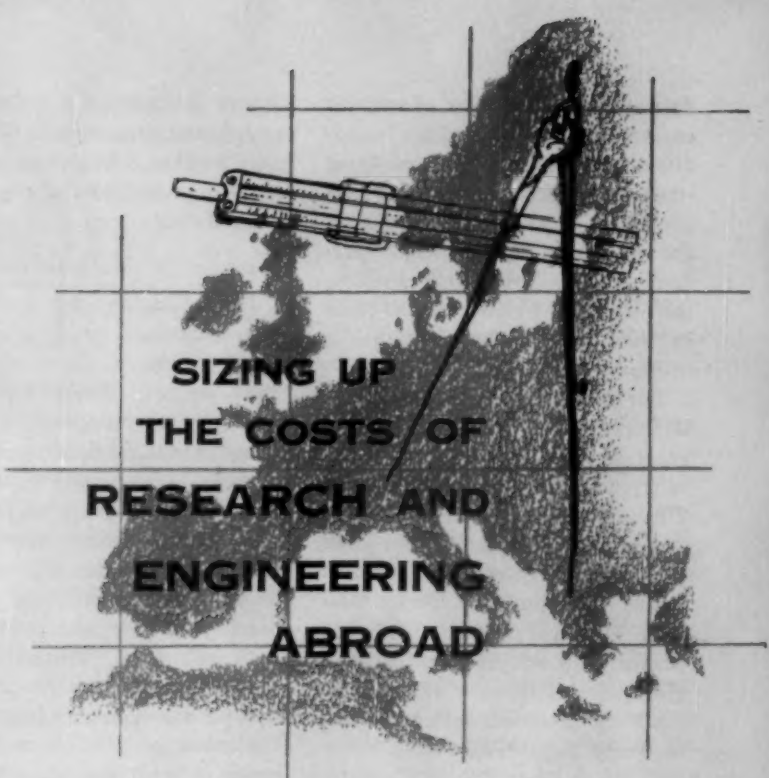
Many other firms, however—while recognizing the need for their own special library or information center—have hesitated to create one: They've been unsure of how to go about it, what it would cost to start and operate one, and where such a department would fit into their organization.

To help these companies, the Special Libraries Association has established a Consultation Service, designed to help any organization set up, expand, reorganize, or operate a special library or information service. Here is how the Service works:

The Special Libraries Association has 32 chapters throughout the U.S. and Canada. Each chapter maintains a Consultation Committee. Any organization's request for library help will be referred to the Committee serving its area, and the Committee, in turn, will select a qualified librarian to visit the organization. The librarian will offer expert guidance on costs, techniques, equipment, and staffing patterns; he'll survey existing facilities and offer recommendations; he'll submit a written report if it's desired—and the service is free (except for travel expenses) if his visit doesn't require more than one day's time.

If a longer survey is necessary, the Special Libraries Association will submit a list of qualified librarians—any one of whom will be able to offer professional service. The company will then be able to select its own consulting librarian and contact him directly to determine how long his services may be required. There is no standard fee, and so the amount the librarian will be paid for his services depends entirely upon the agreement that the librarian and the company arrive at together.

Within the past three years, over 200 organizations have used the Association's free consultations. Any company requiring information or help can contact Bill M. Woods, Executive Secretary, Special Libraries Association, 31 East 10th Street, New York, N. Y.



SIZING UP THE COSTS OF RESEARCH AND ENGINEERING ABROAD

■ John B. Bennet

*Manager of Engineering Administration, ITT Europe
International Telephone and Telegraph Corporation*

WE HAVE only to look at the daily newspapers today to know that we are living in an age of rapidly advancing technology. Many of the products and services produced by industry today are of a complex technical nature; in fact, major engineering and technical efforts are vital to most industrial businesses. And it is no exaggera-

tion to say that the competitiveness of many companies depends on their ability to control the costs of their research and engineering.

In view of this situation, many companies seeking means of reducing their expenses are considering foreign sources to carry out some or all of their technical work, and they are naturally trying to

A MANAGEMENT REVIEW SPECIAL FEATURE

determine the best ways of utilizing engineering efforts abroad. In addition to companies in the planning stage, other firms that are already operating overseas subsidiaries or are associated with foreign companies are concerned with assessing the manner in which technical effort in their foreign establishments is utilized.

For all these companies, then, it is important to develop ways of analyzing and evaluating the costs of research and engineering abroad. This evaluation will enable them to assess the competitive and profit value of an operation or a product line as a function of its foreign location. They will then be able to tell whether they can profitably carry out given lines of business with a relatively high technical content—and if so, where they can best do it.

Recognizing Differences

The basic mechanics of making such a study are pretty much alike here and abroad. There are, however, important differences in the manner of obtaining information and in the way this information should be used.

Much has been said in recent years about the importance of recognizing national and personality differences when working with business people in foreign countries. These differences in national character, cultural background, emotional nature, and personal interest probably apply to an even greater

degree to technically trained personnel, and they must be taken into consideration when developing an analysis of the cost of engineering work abroad.

Organization and personnel

First, however, we must get a clear understanding of the organizational picture of the foreign company we are dealing with. It is important to recognize the differences in organizational aspects, particularly in reporting relationships and the classification of personnel. The school systems in European countries are quite different from those in this country, and the technical people we are likely to deal with will have different academic backgrounds. Moreover, manpower and personnel policies governing the utilization of people's services are quite different and are often regulated by local laws or government action. This does not by any means imply that organizational aspects of the foreign company should be changed to fit a pattern familiar to U.S. managers; the fact that American and foreign ways of handling personnel are different does not mean that one or the other is superior. As long as the methods used are working efficiently, no changes should be contemplated. It is important, however, that the differences be recognized and taken into account when conducting an evaluation.

The object of the analysis of re-

search and engineering abroad is to find out what individual pieces of engineering work are costing. Once we have this information, we can put these individual pieces together in any desired combination to find out the engineering costs for single products as well as for entire business operations.

Semantic Barriers

In doing this, we must remember that we are working in a foreign country, and that communications between the people making this analysis and those actually carrying out the technical work are more difficult. Even though English will usually be spoken and understood, certain language difficulties will arise; the European interpretation of English terminology often differs from ours, and although a foreign-trained technical executive might understand the words we are saying and writing, he may not fully comprehend the information we are trying to convey. In one German company, for example, English definitions of basic terms were prepared in cooperation with a German executive. Several weeks later this man translated the English definitions into German, rearranged the German to express his ideas more accurately and completely, then retranslated the revised German into English. The resulting definitions were much clearer expressions of the terms as they were actually used in the foreign company.

Clearly, then, before any evaluation can begin, the analyst must work with the foreign company to prepare a definition of basic terms.

Agreeing on Terms

First, it is necessary to agree on the *technical fields* involved in the work done by the company. Some companies will be concerned with electronics, physics, chemistry; others will be working in biology, medicine, medical science, and biochemistry; and so forth. Everyone should agree on the sciences that are involved in the work of the company and understand what areas they cover.

The next step is to spell out clearly the titles and especially the *classification of technical personnel*. We must make sure that when we speak of an engineer we mean the same thing our foreign colleague means; when we speak of a technician or a technical aide, we must have the same understanding of the background and the responsibilities of such a person. Another area of terminology on which we must reach a common understanding concerns *product groups*. It is extremely important to relate the breakdown of the costs of technical work to product areas or groups of related products. We must therefore reach a complete agreement on what these groups should be and what products are to be included in each of these groups. Finally, and this is probably the most important

step in our analysis, we must divide our total engineering effort into *major functional areas*.

A Common Language

In dealing with organizations in foreign countries, it is imperative to have each of these terms identified and supported by a clear, comprehensive, and carefully prepared definition. This is the only way to insure that everybody using a term will have the same understanding of what it means, regardless of his country, his origin, or his native language.

Appropriately striking and clear words should be used to designate each term, and considerable work should go into the preparation of the corresponding definitions. Adequate time should be allowed to have the wording of these definitions reviewed by foreign executives and technical personnel to insure that they completely appreciate and understand what has been said. In working out these definitions, it is important to recognize clearly and honestly the existence of basic differences in approach, organization, and philosophy. There is no need



"He's real executive material—knows how to make decisions.
Did you hear that firm 'yes' he gave me?"

to reconcile these differences—each company in each country should continue to work along their established lines and under the systems to which they are accustomed—but a common language is needed to permit the concepts and values established in each country to be understood in others.

Functional Areas

One of the most important aspects of the analysis itself is the breakdown of the total technical effort into major *functional areas*. The key to an effective evaluation of the over-all engineering effort is knowledge of the individual pieces that make up the total. The establishment of this kind of breakdown usually presents some major difficulties, and it has often been a subject of controversy. Although the specific functional fields will vary from one industry to another, the following general breakdown should have rather wide application:

1. Research
2. Development of Products and Systems
 - a. Product-Design Engineering
 - b. Systems Engineering and Planning
3. Customer Engineering
 - a. Contract-Development Engineering
 - b. Customer-Order Engineering
4. Engineering Assistance to Sales
5. Engineering Assistance to Service and Installation
6. Engineering Assistance to Manufacturing

The establishment and acceptance of this or a similar breakdown of technical activity into major functional fields provides management with a valuable tool for analyzing and organizing present and future efforts. It is important, especially in dealing with foreign countries, to have each field clearly defined, so that all costs applicable to a particular field of effort can be assembled.

Putting the Pieces Together

Once we have established a common understanding with the foreign companies regarding the terms we are going to use and have obtained the cost data related to those terms, we can ask any number of questions about the actual costs of their technical work. If, for example, the foreign companies are asked to report for each year the amount of money that they spent in each functional technical field for every product group, these individual pieces of engineering costs can be assembled in any desired combinations to make comparisons between different foreign operations and American operations. As a next step, it is an easy matter to relate research and engineering expenditures to sales and profits, and to establish relationships between the cost of engineering efforts and profitability. We can find out in what country or company engineering expenses for a certain product are lowest and, from this, determine where the product can be

engineered and produced most competitively. We can decide whether it is more efficient to design products in this country or in a foreign land. And, if we are comparing a number of foreign companies that are being considered for acquisition, we can determine where given types of engineering effort can be obtained under the most competitive terms—a vital consideration when engineering costs represent a major portion of the total product cost.

The tools of analysis and evaluation developed here can enable American companies to find out how technical performance abroad compares in effectiveness with research and engineering in this country. They can also determine whether the functional distribution of their engineering efforts is effective; for example, it would be possible to discover that so much money is being spent for research on some products that not enough is left for product engineering and preparation for manufacturing.

Engineering Costs vs. Profits

In another area, it might be desirable to take a look at products in the light of their engineering costs. It would be useful, for instance, to find out whether greater engineering effort produces comparable increases in sales and profits. It would be equally useful to discover situations in which engineering expenses are excessive compared with sales and have a detrimental effect on net

profits. It is vital to insure that each product group can afford to support the technical effort being expended on its behalf.

Assessing Relative Values

The relationship between profitability and engineering expense for different product groups is important in assessing the relative value and the future potential of different aspects of the foreign business. It will show up established product lines that are relatively profitable and at the same time have low engineering expenditures. On the other hand, it will point the finger to situations involving older products with limited profitability that are fighting a losing battle and require high engineering expenses to stay in business. The analysis will also provide management with information on the engineering costs involved in putting a product on the market and, therefore, indicate the size of the investment required to launch the new product.

This type of study can be made for any type or size of company from small firms to corporations with complex foreign operations. In one case, the technical operations of fifteen European companies located in many different countries and handling fourteen different product groups have been analyzed. Such an analysis makes it possible to determine where the greatest relative strength can be found for each product line and each functional

type of technical effort. From this information, management obtains a valuable inventory of strength and weaknesses.

Interpreting Results

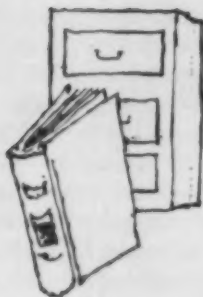
The proper interpretation of the results of an analysis of engineering costs will enable management to know the relative distribution of technical skills and the ways these skills are being used in the organizations under study. In the case of potential acquisitions, the application of available technical skills can be compared with what the company now has at its disposal; when the study is being made for existing foreign units, the results obtained can be used to verify that technical skills are distributed throughout the organization to the best over-all advantage.

Additional information derived from such a study can provide important guides for future planning. It will help corporate management to decide what type of operations should be built up in certain locations, what companies should be acquired, and what operations should be de-emphasized or not acquired. In certain cases, it will also permit a closer examination of the nature of the technical effort by establishing a quantitative distinction between creative efforts and routine engineering work, thus enabling management to determine the kind of work that can be done by less highly-trained people.

A final word of caution concerning the application of the findings of this analysis: In a foreign environment, great care must be taken in discussing the findings and conclusions of the study. Free discussion between different organizational levels is not quite as common in Europe as in some American companies. Local and historical conditions, national pride, the company's competitive position, special relationships with customers, and business customs must all be taken into consideration. Most of all, the findings should not be presented critically, but in a constructive manner, as a tool to help the local management to improve any conditions that might warrant action.

Guides for Planning

The high engineering content of certain products and industrial operations makes the cost of technical work a major factor in determining the competitiveness of a business. With the present trend toward foreign operations, it is vitally important to obtain an effective and proper assessment of the cost of technical work in foreign countries. An analysis and evaluation of these costs can indicate where technical work can best be performed and help in the selection of products by pointing out those for which a given company can provide the most competitive engineering effort, thus providing important guidelines for future business planning. ♦



SIC—

Key to New Sales Opportunities?

Condensed from International Management

MANAGEMENT may be overlooking one of the most effective techniques for studying industrial markets. It is the Standard Industrial Classification (SIC), used by many governments to report statistics. By classifying markets according to a standard code, a company can locate and define its best markets, determine its sales potential in each market, and organize a sales network to match the sales potential of each geographical area.

The SIC is a common statistical language, originally developed for use by government agencies. Since 1948, there has been an International SIC, used and recommended by the United Nations Statistical Office.

The international code is a three-digit decimal system. This means that major industry groups are classified by two digits, with major subclasses created by adding a third digit. Additional digits can be used to create a "third layer."

For example, "22" represents textile mills; "225" represents knitting mills; and, as a further subclassification, "2251" represents full-fashioned hosiery mills.

As a first step in market planning, a company must classify its own sales records according to an SIC code. This might be done simply by coding all incoming orders. Monthly analysis of the sales pattern will soon indicate which industries are the most important. Most companies that do market planning start by classifying sales records, usually a year's supply, to determine the pattern of industrial demand.

To classify its markets, a company must decide how many digits are needed for an adequate breakdown of markets. For minor markets, a two-digit breakdown is sufficient—and probably detailed enough for meaningful statistics. For major markets, three or four digits may be desirable. It depends on the complexity of the market,

International Management (March, 1961), condensed with special permission;
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and national classification codes usually reflect this: Four or more digits are the rule in Europe, for instance, and three digits in Latin America. A company can begin with a two-digit breakdown and later expand to three or more.

Immediate Benefits

By coding records, a company can locate its best marketing areas. And this can give some immediate benefits. Besides supplying a monthly sales analysis, by industry and by sales district, classification helps allocate the advertising budget on an industry basis. Many U.S. business magazines issue audited circulation statements broken down by SIC category, and a company can select its audience by matching its SIC pattern to the publisher's list.

By concentrating on "the few that buy the most," a company can get a maximum return from its sales and advertising efforts. The rule of thumb among market planners is that 80 per cent of sales come from 20 per cent of the customers. In a recent study of metalworking markets for one product, McGraw-Hill discovered that 83 per cent of all purchases were made by plants with fifty or more employees—and these plants represented only 4 per cent of the metalworking establishments. Thus it pays a company to concentrate on plants above a certain size. It might be twenty employees, fifty employees, one hundred employees, or more.

One company recently assigned a task force to search industrial directories for all plants in certain SIC categories with fifty or more employees. All of these plants are now being contacted by letter, telephone, or personal visit to find out how much wire cloth they use, and which plant executives are responsible for buying the product.

On the basis of this study, the company plans to revise its list of prospective customers. They estimate that over half the present 45,000 names will be dropped, with many new names added. This will save the company an estimated \$12,000 in wasted promotional expense.

Companies with sales to a relatively few industries can often get consumption data for nearly all of their prospective customers. But this is seldom true for companies that sell more or less "across the board."

These companies usually resort to statistical sampling techniques, which is work for a professional market researcher.

Projecting a Sample

Once the sales potential for a market sample is known, the company can project a sales potential for the entire industry. The problem is to find a published statistic that relates closely with sales potential. The statistic most commonly used in the U.S. is employment—which reflects plant size and production

output—or a combination of employment and other economic indicators. Whatever statistic is selected, it is used to project the sales potential for that industry. Market penetration—the percentage of total sales held by the company—is found at the same time, by the same method. Since neither employment nor any other statistic correlates perfectly with product consumption, common-sense adjustments must be made.

As an aid in planning sales terri-

tories, an index of sales potential for each industry can be calculated. The index most commonly used by U.S. companies is sales potential per employee, calculated on a nationwide basis. This sales-potential index, when multiplied by the total employment in any given geographical area, gives the sales potential of the area. By experimenting (perhaps with the aid of punched cards) a company can set up a sales organization to best exploit the market. ♦

Discretionary Income Shifts

IN RECENT YEARS, increasing proportions of discretionary income have been diverted to durable recreational goods and to services, the National Industrial Conference Board reported recently.

During the past decade, consumers spent a total of 160 billion dollars on household goods. These goods include furniture, major appliances, cleaning and laundry equipment, floor coverings, bedding, clocks, lamps, and other small furnishings. Consumer expenditures for furniture and household equipment are essentially discretionary in character, says The Conference Board.

The over-all ten-year spending trend for household goods was sharply up, from 14 billion dollars in 1950 to nearly 19 billions in 1959 and 1960. Relative to discretionary income, however, household goods expenditures have been declining. In 1950, consumers spent 18 per cent of their discretionary income on home furnishings. By 1960, this figure had dropped to 15 per cent—a post-war low. The share of other durables—which consist mainly of recreational goods, like radio and television sets, records, and musical instruments—increased 1 per cent. An increase of about 2 per cent occurred in services.

The shift in outlays from household goods to services may have been a consequence of a continuing rise in discretionary income in a period of declining household formation, the NICB notes. Although young married couples represent a small proportion of total households, their initial expenditures for household goods comprise a disproportionately large share of total spending for home furnishings.

When You Outgrow Your Plant

By Joseph A. Rosenthal

Condensed from Factory

GROWING PRODUCTION and a few years' accumulation of new equipment can literally push your manufacturing operations out the back door. Before a decision is made on whether to build a new plant or expand the old one, a number of factors should be considered.

Present Plant Site

The first—and most important—factor is the present plant site.

- **Site size.** Good planning calls for a site that's four to six times the present size of a plant. This provides for a rail siding, truck access and turnaround space, loading docks, parking, outside storage, and future expansion. But this extra space isn't always available at an old site. It may be necessary to use other buildings in the area or to demolish some old structures to make room for expansion.

- **Site location.** Firms manufacturing or distributing consumer products should consider the advertising value of a major highway location—particularly if the plant is architecturally pleasing and well landscaped. An old plant in the right location can always have its

face lifted. Personnel managers recognize the importance of such locations: Employees like to identify themselves with prestige companies that operate a widely known and recognized plant.

- **Public transportation.** Many employees depend largely on local transit systems. A reliable, all-weather system that gives frequent service should pass near the plant. A change to a location not served by public transportation can mean a large loss in your labor force.

- **Highways and access roads.** Accessibility is important to the worker who drives as well as to truckers.

- **Truck service.** This item is playing an increasingly important role in plant relocation. In all cases, existing motor-truck franchises should be investigated carefully before the final selection of a site. At your present site, you have probably established good working agreements with truckers. To avoid costly transfer of inbound and outbound shipments, make sure any new site provides direct truck routes to your major markets.

- **Rail facilities.** With today's em-

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phasis on truck transport, good rail facilities are often overlooked. This can be a costly error. Even when rail facilities are not needed immediately, they can become an important future consideration for three reasons: They're a hedge against indiscriminate rises in truck rates; they offer protection against labor trouble in the trucking industry; and they increase the value of your building if you sell. In checking rail facilities, look into the frequency of service and the rate structure. Sometimes a small change in location has a significant effect on rates.

- *Utility services.* A plant without adequate service just can't operate. This is something every manager should remember when considering a move. If a move to a new site seems advisable, obtain commitments regarding services from utilities as well as from local and state governments. Make sure there are no costly assessments for extensions of mains and lines.

- *Industrial environment.* Patterns of neighboring industries in rates, working hours, shift schedules, and fringe benefits can weigh heavily in any relocation decision. Many times these may be in conflict with the carefully prepared personnel policies of a plant. Conversely, patterns in a new area can be to a company's advantage.

- *Business climate.* How do local and state governments feel toward industrial development? If your re-

lations are good at the present site, chances are that local officials will do everything possible to help you remain. Some communities have even financed the building of a new plant for a long-term industrial resident. On the other hand, poor business climate is a prime reason for relocation.

- *Proximity to residential areas.* Certain industries release objectionable odors and smoke or operate noisy equipment. Adequate space acts as a buffer zone and prevents annoyance to nearby residents. Any addition to a plant naturally reduces this buffer zone and may create an unfavorable local condition.

- *Building codes and zoning regulations.* These can be an important obstacle, either to new plant construction or to a modernization project. In both instances, it's important to contact local authorities about the type of industry as well as the construction planned. In this way, you can make sure both are permissible under existing laws.

- *Community safeguards and protection.* Most established communities offer fire and police protection. Also, they do a fairly efficient job of cleaning up the results of snow storms and the like. Some even have a plan for civil defense action. The trend toward building large plants in peripheral areas makes these community services an important consideration. Lack of such services can add greatly to the operating budget of a new plant, since

even insurance rates are based on these factors.

- *Taxes.* In order to encourage industrial development, many states and communities have established firm, long-range tax advantages for new plants. Where no such advantages exist, check local and state tax structures to insure reasonable taxes on business, real estate, and property. In addition, consider assessments. They may indicate you're better off in your present plant.

- *Proximity to markets.* As the population shifts throughout the country, many companies find it advantageous to move their plants, too. In such cases, however, reduction of transportation costs must be great enough to offset the increased cost of the new facility.

Present Building

The second most important factor in deciding to build or modernize is your present building. Here are eight major considerations:

- *Design.* Architectural design is important for public relations as well as community and employee relations. But except for a few consumer industries, it's no reason in itself for scrapping an old plant. Usually a new façade on an old building or a new addition in front of the old structure will serve the same purpose.

- *Flexibility.* Space requirements within a plant change with products and production methods. Building inflexibility can be a strait jacket.

For example, customer demands for faster deliveries may mean more storage area to handle bigger finished inventories. Also, where progressive production replaces area manufacturing, varying floor levels within a building or between adjacent buildings become a critical problem. You can compensate for some inflexibility, but where it's impossible to do so, a move is indicated.

- *Expandability.* Many old buildings lack provisions for expansion. The fixed size of a building dictates the construction of a new plant more than any other single factor. There are many ways to provide for future expansion in a new plant: Exterior curtain walls on the side of proposed expansions can be removable and non-load-bearing; foundations can be designed for expansion; vertical structural members can be designed to support upward expansion.

- *Structural members.* Old plants sometimes need a structural member where you can't put one. But this is seldom reason enough for a new building. For example, one plant had to avoid putting a column or footing through an electric vault in modernizing. Here, the new production floor was cantilevered over the vault to solve the problem.

- *Bay size.* Structural members already installed can be as big a problem as missing ones. Older plants tend to have small bay sizes, thereby limiting flexibility. But unless the process involved is highly

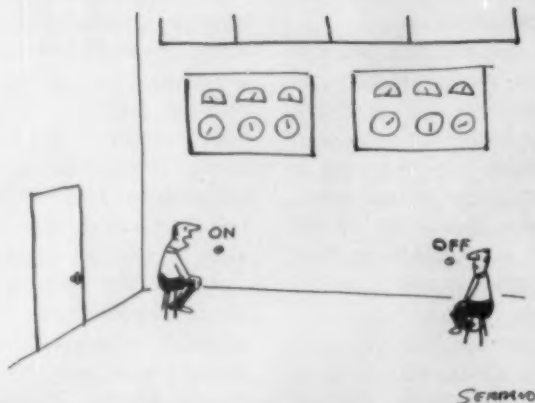
mechanized, layouts can usually be designed around steel uprights. When this is impossible, a new plant may be the only answer.

- *Overhead clearance.* Lack of adequate headroom can restrict manufacturing efficiency. But sometimes the roof can be raised to provide added clearance. If overhead air space is available, it can be effectively used for conveyORIZED storage or for washroom and locker facilities. In either case, floor space will be gained.

- *Floors and floor loads.* In most cases, it's impossible to accommodate drastic increases in live loads. But sometimes you can circumvent such a crisis by reducing dead loads.

One way is to substitute lighter materials.

- *Special facilities.* Special-purpose buildings with built-in features can be a deciding reason for modernization, since these facilities can't be moved and are too expensive to construct anew. But special areas like white rooms, sterile rooms, sound-proof rooms, or explosion-proof rooms can usually be installed in an older plant. This, however, isn't true of magnetic shielding for equipment or radiation protection that requires heavy layers of lead or an extremely thick mass of solid concrete. Some operations are so hazardous they cannot be safely introduced into existing buildings. ♦



"I'm worried—the efficiency experts were through here again today."



College Relations:

ONE COMPANY'S PROGRAM

By Charles W. Day

Condensed from Journal of College Placement

Vice-President and General Manager—Ford Division of Ford Motor Company. This recently acquired title put Lee A. Iacocca a long way from his days as college trainee. His rise marked not only the success of a long and costly management-development program, but also the success of an entire college-relations program begun in 1945. It is a program that any company can adapt to fit its needs and resources.

Campus-Oriented Activities

Campus-oriented activities at Ford are varied. Each day, more than a hundred letters arrive requesting information about school

projects, the company's history, and company education programs. Doctoral candidates arrive steadily to gather material for theses and academic papers, and graduate students drop in to collect facts and data for their classes.

When the company isn't supplying information or shepherding graduate students, it is scheduling work assignments for its more than 280 cooperative education students. These junior businessmen alternate campus studies with on-the-job training in finance, engineering, or other company activities.

The company also supports an independent, nonprofit corporation that makes grants to colleges.

Journal of College Placement (April, 1961), © 1961 by the College Placement Council, Inc.

The company's direct financial aid to higher education has been complemented by an annual merit scholarship competition open to children of company employees. Each of the approximately seventy winners each year may attend a college of his choice under a four-year, full-tuition scholarship. Money is provided for books and for a good part of the living expenses.

Matching Gifts

Last year the company instituted its Educational Assistance and Incentive Donation (AID) program. This is a "matching gifts" program—with one or two unique twists. The company will match employee contributions to colleges or universities dollar for dollar up to \$5000 in any one year. In addition, if the gift is to a private university or college, the company will match it two for one up to the first \$1000.

The company will also match employee gifts to secondary schools on the same basis.

Top-Level Guidance

Because top management felt that the financial-aid programs and other activities needed more planning and direction, a college-relations committee consisting of eleven top executives was set up in 1960 to oversee the programs.

One of the committee's first steps was to reinforce the programs and projects of the Educational Affairs Department, a group that maintains

liaison with college faculties and administrators, publishes an educational affairs newsletter, and, in general, explores ways to serve education. The committee urged the department to pay increased attention to the company's college seminars—discussion programs in which company management and educators exchange ideas on a variety of subjects.

Tours and Talk

At these seminars, some 150 university people meet with top management and begin a plant tour. The tour's purpose: to set the stage for discussions and questions about the automobile business.

After the tour, professors and managers dine in an employee cafeteria. This is followed by the core of the seminar program: a thorough discussion of business practices, educational philosophy, and ways that business and education can contribute to common goals. Economists, scientists, and other staff men are flown in to lead discussions and conduct question-and-answer periods.

The seminars have been so successful that the company is embarking on a special series of annual forums for science and engineering professors. Company physicists, metallurgists, and engineers will meet with campus scientists to present scientific papers, ponder scientific programs, and generally discuss the state of scientific research.

Many of the topics discussed will have little or no direct bearing on the automobile industry; nevertheless, the company feels that all scientific advancement is ultimately beneficial to society and that forum results will, in the long run, be good for everyone.

Recruiting

Despite the broad range of the company's educational programs, it has not neglected its recruiting and training. About a year ago, one of the company's labor-relations specialists was given the job of organizing and managing a College Recruiting Department. His instructions were to select a staff, develop refresher courses for interviewers, and concentrate on making placement a two-way street. At the core of the department's recruiting philosophy is the belief that men with certain broad skills can transfer their abilities from job to job with relative ease, regardless of what their formal training has been.

Increased emphasis on college recruiting has led naturally to an improved and enlarged graduate management-training program.

On-the-Job Training

Once a trainee is hired, he joins some 750 other men for a two-year, on-the-job training program. Trainees, most of whom hold bachelor's or master's degrees, are assigned to a staff or division for training. After completing several assignments dur-

ing their two years, each has a foot solidly placed on a rung of the corporate ladder.

In addition to on-the-job experience, each trainee is given a semi-annual performance review by his own supervisor. He also attends monthly training lectures, which—complete with company textbooks—are often delivered by vice-presidents and cover virtually every major area of company operations. When lecturers have finished their prepared remarks, the meeting is thrown open to an off-the-record, no-holds-barred, question-and-answer period.

Stepped-Up Activity

The company believes that such stepped-up activity is necessary to the success of its recruiting program. It concedes that no amount of campus advertising and recruiting activity can be fully effective unless trainees are among the best-screened, best-placed, and best-instructed men in their graduating class. The acid test, of course, comes quickly: Word-of-mouth advertising finds its way from trainees to classes behind them.

These activities—college recruiting, management development, scholarship awards, and educational seminars—are the nucleus of Ford's college activities. Its top management is convinced that, with increasing efforts, these programs can be useful both to higher education and to the company itself. ♦

RISK AND REWARD

South of the Border

Condensed from Dun's Review and Modern Industry

WHenever they talk about South America, Latin businessmen dwell on one statistic: the median age of the Latin American. He is exactly 21.5 years old. And that means that Latin America is, only now, really starting to grow up. Over the next few years, as those young people marry and form families, they will set up a soaring demand for items ranging from construction and farm equipment to medical and health supplies, and from basic goods to luxury items for an emerging middle class.

For many businessmen, Latin America most likely means Cuba's Castro, bombs that shake Venezuela and its moderate government, or the depreciation in some local currencies that has resulted in non-deductible losses of millions of dollars in profits and assets for U.S. companies.

One Big Question

Caught between the glitter and the glare, the American businessman must ask himself one big question: Are the potential rewards

of doing business in Latin America worth the very real risks?

Many of the nation's top companies think so, and are backing their convictions with cash. International Paper Company and W. R. Grace & Company, for example, are jointly building a hundred-ton-a-day paper mill in Cali, Colombia. Sears, Roebuck has long been a top name in Mexico. And Deere & Company, manufacturer of farm equipment, started out in Argentina building tractors in a leased warehouse and is now getting ready to move into its own plant.

How do these companies, which rank among the giants of American industry, feel about risking their hard-earned profits in Latin America? Deere's president William Hewitt answers: "You must go into Latin America on a long-term basis, and you can't be frightened by every shift in the political climate. Of course, you've got to keep a sharp eye out—but you can't get panicked by every revolution."

The businessman's main fear in Latin America is expropriation.

Dun's Review and Modern Industry (April, 1961). © 1961 by Dun & Bradstreet Publications Corporation.

Perhaps the easiest way to combat it is to take out expropriation insurance issued by the U.S. Government's International Cooperation Authority. Once his papers are filled out, the American executive can obtain the insurance for most Latin nations in just 24 hours. The annual cost of the insurance amounts to only one half of one per cent of the company's total investment, and large companies like ABC-Paramount and Pure Oil are using it to cover their Latin-American operations.

Latin America holds many lures for the manufacturer. Despite their outbursts of anti-Americanism, Latins know the *Yanquis* as good employers who pay at least the minimum wage rates and sometimes offer fringe benefits as well. Locally-owned companies, in contrast, sometimes try to avoid paying the minimum.

No Problem with Unions

Unions are no problem in vast areas of Latin America. With labor plentiful, workers tend to be cooperative. And many of the terms which in the U.S. must be hammered out by labor and management are a part of Latin law. Minimum wages, for example, generally are set by law. So, too, may be the vacations to which certain workers are entitled. In Argentina, for example, all workers who have been employed for a year must get twenty days of paid vacation.

If there are inducements for going south of the border, there are also some dangerous pitfalls. Latin America's culture is a blend of the Spanish and the Indian. Its ways can be far different from those U.S. businessmen are used to. And it's far from being all of a piece: Bustling countries like Venezuela have little in common with poverty-ridden Peru or Ecuador. The American must face the fact that he is setting out to do business in a foreign country, and he must prepare himself and his products accordingly.

For example, Latin housewives spend a great deal of their time in the kitchen. Does that mean, then, that they're prime customers for "quick," easy-to-prepare foods? Not at all: The Latin woman who used an instant food would quickly be branded *perezosa*: lazy. At least one large food company had to consider this fact in marketing its packaged soup. The label now carefully notes that the product is a "soup base" and needs other ingredients.

Lure of Latin America

Latin America still holds the lure of a continent whose markets have barely been tapped. It has not had nearly so heavy an influx of American industry as Europe or Canada. The U.S. share of net earnings from investments in Western European manufacturing increased by 272 million dollars from 1950 to 1959.

In Canada, the increase was 137 millions. But in Latin America, net earnings rose by only 14 million dollars, and most of that was probably accountable to such companies as Creole, Socony, and Gulf, with their wells in oil-rich Venezuela.

Credit Competition

What about foreign manufacturers—the same companies now flooding the U.S. with low-cost goods? Manufacturing in Latin America, the U.S. businessman may well be able to match their prices. Even if he does, he must compete with them in another area: credit. Poverty-ridden and over-populated, Latin America is chronically short of money. Even for the buyer who can borrow easily from a bank, interest rates run as high as 10, 12, or even 18 per cent a year. And the few Latin businessmen who can afford to carry huge inventories without borrowing would prefer, naturally, to put their money to better use at the prevailing high return.

While European businessmen have learned to turn this condition to their advantage, many U.S. companies are still sadly behind the competition. Nearly every European government gives its exporters a credit advantage over *Yanqui* traders, and the European exporter has a powerful selling point when he can offer financing for six or twelve months or longer, sometimes without charging interest at all.

Amid these differences, can the American businessman hope to break into Latin America successfully? If the experience of the Sterling Drug Company is any indication, the answer is yes. Fifteen years ago, Sterling set out to blanket Latin America with its drug products. It set up facilities in every major country to produce and package them. By shipping mainly semiprocessed goods from the U.S., the company was able to transfer funds even when the various nations were short of dollars—for the Latins saw that the semifinished products were saving them dollars that might have been spent on fully processed items. At the same time, Sterling made each local subsidiary into a separate corporation, sent down top-flight Americans or U.S.-educated Latins, and worked out a way to combine Latin custom with American know-how.

Adaptability

As Sterling saw it, its business was to export drugs, not U.S. ideas. In each country, the company adapted its ways to local methods. If a U.S., Mexican, or Brazilian distribution method, for example, did not suit the Peruvians, then Sterling worked out new techniques for its Peruvian subsidiary. True, the New York office had headaches trying to coordinate a welter of different reports, but the company now has grown into a comparative giant south of the border. ♦

When custom-built equipment is needed, it's vital to keep a close eye on purchasing procedures . . .

TIPS ON BUYING

Specially Engineered Equipment

*Condensed from
Material Handling Engineering*

IT'S EASY to get lost when buying specially engineered equipment. Some of the ways: Don't secure proposals from enough suppliers. Don't find out what kinds of service they offer. Don't bother to work with your company's pur-

Material Handling Engineering (February, 1961), © 1961 by The Industrial Publishing Corporation.

chasing agent. Pick the wrong supplier.

These and other pitfalls can be avoided if you follow the buying procedures of managers in some of the nation's top corporations, as surveyed by the editors of *Material Handling Engineering*:

Before requisitioning the equipment you want, you may need some technical help from manufacturers or distributors. Ask your company's purchasing agent to call in vendors for discussions with you. If you know of vendors with the engineering know-how, experience, and dependability to do the job, relay the information to your purchasing agent—you'll save time by talking to the best vendors right from the beginning. And make your specifications clear and complete: Usually, your p.a. is not an engineer, and it's up to you to find out and spell out in detail what's needed.

Setting a Price Range

Your p.a. will request prices from several prospective vendors—preferably not more than three, but including those who have worked with you on the project so far. This step is to establish a cost bracket in which you'll be working. The p.a.'s request for price and terms tells the vendors the type of equipment, its specifications, the date by which it is needed, and the date by which the quotation is to be returned.

When the quote is returned, check any changes the vendor may have made in the specifications. Or, if the original specifications were purposely kept loose to draw suggestions from vendors, study their efforts.

The Project Stage

Assuming that proposals have been returned and checked and that the general price range for the equipment has been approved, the next step is to get the project detailed by your company's engineering and drafting staff. Then send the detailed specifications to purchasing, making sure to include any changes you may have made in vendor recommendations because of design improvements offered.

Your p.a. will send out requests to bid to vendors whose prices and specifications fall into the approved category. The bid asks for a firm price and delivery date, and agreement to your company's buying conditions. A target date for closing bids is indicated.

Proposals

Your first written contact with a vendor often comes in his proposal answering your request to bid. It is important that you analyze his proposal carefully for:

Conformity to your specifications. Has the vendor cut any corners that would enable him to bid lower at the expense of quality?

Design changes. Has he ap-

proached your operating problem from a different angle and improved it? Has he introduced a design feature that should be incorporated in the final specifications?

Delivery date. An early delivery date is a big factor when your proposed equipment will cut costs sharply.

Warranties

The key to warranties, as with proposals, is the reputation of the vendor. Generally, engineered equipment is warranted against defective parts for a year. But a reputable vendor will negotiate claims against his equipment after the time limit, depending on the normal life expectancy of the part, evidence of poor workmanship, etc.

Final Evaluation

When bids are returned, you reach the critical stage of evaluation. The final selection of a vendor will be based on:

- An engineering evaluation of the equipment—including consideration of the degree of standardization, if any is required, with other equipment in the plant.
- His initiative in making suggestions to improve your operation.
- Low bid.
- The vendor's reputation for product quality, dependability, and knowledge of his field.
- His past cooperation, if you've worked with him before, in special or emergency situations. ♦

ALSO RECOMMENDED

summaries of other timely articles



GENERAL

LEGAL IMPLICATIONS OF COMPUTER USE. By Roy N. Freed. *Automation* (Penton Building, Cleveland 13, Ohio), April, 1961. Gratis. Legal questions raised by computer adoption run the gamut of the law; they include, for example, such diverse facets as tort liability involving persons and property, contracts, labor relations, corporations, taxes, patents, and antitrust. Computer users who are alerted to the various legal aspects examined by the author—who has served on the American Bar Association Committee on Electronic Data Retrieval—will know when to call on their lawyers for advice. One interesting point raised is the possibility that a company might incur liabilities because a computer has *not* been used.

BUSINESS NEEDS AN INTELLIGENCE DIRECTOR. By Marion Harper, Jr. *Management and Business Automation* (600 West Jackson Boulevard, Chicago 6, Ill.), March, 1961. 75 cents. The mushrooming supply of data from research and development is making management decision-making more and more complex, according to the author, who advocates the creation of a new post—director of intelligence services—to simplify the task for management. The director would develop information for alternative recom-

mendations and outline the probable consequences of moving in any direction; he would measure and help shape policy, although his chief executive officer would still have responsibility for its formulation.

JUSTICE DEPARTMENT POLICIES ON MERGER LAWS. By E. D. Beaudet. *Iron Age* (Chestnut and 56 Streets, Philadelphia 39, Pa.), April 13, 1961. 50 cents. Vital to companies planning to merge, buy, or sell out is the attitude of the Justice Department toward such moves. This interview with Attorney General Robert Kennedy, concerning the enforcement of antimerger and antitrust laws, gives his views on such matters as investigation to see if companies previously convicted of antitrust violations are complying with court orders; clearance for proposed mergers from the Antitrust Division; the "failing company doctrine," permitting mergers that otherwise might violate antitrust laws; and the effect of antitrust laws on mergers between American corporations and companies overseas.

COMPENSATION OR DIVIDEND? Edited by Richard L. Greene. *The Journal of Taxation* (147 East 50 Street, New York 22, N.Y.), April, 1961. \$1.50. In nine

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reports, tax lawyers and accountants in various cities tell of their own experiences with the IRS in cases involving reasonable compensation, disallowance of expenses, and dividend treatment to executive stockholders. Two conclusions stand out: (1) The administrative power of the revenue agent to make adjustment to executive salaries is indeed vast, since

it is limited only by the vague and undefined statutory test of "reasonableness," and (2) an apparent geographical disparity in the administration of reasonable salary and fringe-benefit tax problems may cause the result of a given case to depend on the location of the corporation and of the IRS office conducting the tax examination.

PRODUCTION

HOW TO SELECT AND APPLY A-C

MOTORS. By J. L. Barbi. *Mill & Factory* (205 East 42 Street, New York 17, N.Y.), April, 1961. Reprints 35 cents. To obtain the most efficient, reliable performance, the speed-torque characteristics of an A-C motor must be matched with the demands of the load to be driven, according to the author, who describes typical applications of different types of A-C motors. Other steps to be taken before selecting the motor include picking the right enclosure for the environment, selecting an insulation that will withstand the temperatures required, and choosing a starter that permits sufficient starting torque.

ESTIMATE PRODUCTION COSTS QUICK-

LY. By John W. Hackney. *Chemical Engineering* (330 West 42 Street, New York 36, N.Y.), April 17, 1961. 75 cents. To simplify the organization and tabulation of manufacturing costs, the author describes and illustrates a sample

estimating form that can be used as a basis of programing for computer calculation. The form is entitled "added manufacturing cost for added production, annual basis," and includes figures on incremental costs for raw materials and fuels, utilities, labor, operating and repair supplies, items subject to depreciation, and loading, packing, and shipping materials.

HOW TEXAS INSTRUMENTS BUYS.

By Paul V. Farrell. *Purchasing* (205 East 42 Street, New York 17, N.Y.), March 27, 1961. 75 cents. The purchasing program at Texas Instruments has been designed to help keep the company in a top spot in the field of electronics—a fast-moving, diverse, competitive business. This article discusses such features as the flexible, but tightly organized system of buying by project; purchasing-engineering teamwork; close control of materials; and simplified, cost-cutting purchasing procedures.

MARKETING

IS THERE A TIME TO KNOCK THE COM-

PETITION? By Francis W. Sullivan. *The American Salesman* (355 Lexington Avenue, New York 17, N.Y.), April, 1961. 75 cents. When the subject of competing products comes up during a

call, the first thing to do is try to put it down again, according to this article, which gives the findings of interviews with salesmen in such diverse lines as trucks, encyclopedias, automobiles, and business forms. If the prospect keeps

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mentioning competing brands by name, the salesman should answer questions briefly, then return to the subject of his own product; and if the prospect demands more direct comparison—or if competing salesmen have been criticizing the salesman's product—he might be forced to provide a feature-by-feature comparison or to imply the inferiority of the competing product.

SEVEN TENETS OF CREATIVE RESEARCH.

By Ernest Dichter. *Journal of Marketing* (27 East Monroe Street, Chicago 3, Ill.), April, 1961. Single reprints \$1.00. Much of current marketing research is no more than head counting and conclusions based on faulty assumptions, charges the author. To improve marketing-research procedures, he offers seven suggestions: (1) Interpret what respondents to a survey say, instead of accepting their answers at face value; (2) avoid hidden assumptions in research projects; (3) formulate a hypothesis before undertaking research; (4) accept the concept of two-way communication in advertising; (5) do not

assume a causative relationship between marketing categories and statistics; (6) concentrate on the uniqueness rather than the relative superiority of media; and (7) don't think that opinions expressed by respondents to a survey indicate how they will act in the future.

DISEASES THAT MAKE WHOLE INDUSTRIES SICK.

By Louis E. Newman. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), March-April, 1961. Reprints \$1.00. Three prevalent notions are hurting business, and in some cases, causing entire industries to operate at a loss, according to the author, who offers some practical remedies. These notions are: (1) that business is "volume-sensitive," when, in fact, it is "price-sensitive"; (2) that salesmen should be paid on a basis that rewards only the volume of their sales instead of on a basis that also recognizes the quality of the sales job done; and (3) that each manufacturer can set prices based on cost accounting systems of his individual choice rather than on an industry-wide, uniform system of accounting.

INDUSTRIAL RELATIONS

SOLVING THE SHORTAGE OF SKILLED LABOR.

Industrial Relations News (230 West 41 Street, New York 36, N.Y.), April, 1961. \$1.00. Despite the current high rate of unemployment, many jobs requiring skilled workers go begging, according to this article. Here are some of the suggestions it offers for solving the skilled-worker shortage: Try to gain union cooperation in upgrading on the basis of ability rather than seniority; invite the Labor Department's Bureau of Apprentices & Training to help determine feasibility of an apprentice program, and set it up; draw on government

employment agencies for aptitude testing and counseling services to reduce trainee-selection costs; and urge local civic officials to create or expand training programs within the community.

COMMUNICATING WITH EMPLOYEES.

By R. Heath Larry. *Challenge* (475 Fifth Avenue, New York 17, N.Y.), March, 1961. 30 cents. In question-and-answer form, this article reveals what the administrative vice president of labor relations at U.S. Steel thinks about how and what to communicate with employees. In particular, he discusses various aspects of

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the economic education of employees; expenditure of corporate funds on such a project; union attitude toward business efforts in this direction; communication of information via house organs and pamphlets; and the responsibility of management in this area. Also discussed are the ramifications of technological change and the problem of unemployment.

LEGISLATION AND ADMINISTRATION.

Notre Dame Lawyer (Notre Dame, Indiana), March, 1961. Reprints 75 cents. A survey of fair employment practice legislation—enacted by 25 states, the District of Columbia, Puerto Rico, and

the federal government—was undertaken to meet the challenge this legislation presents to the multistate employer. Survey results are reported in this article, which gives special consideration to the case law on FEPC in all the states, the peculiar problems presented by the ten states that have enacted special provisions dealing with age discrimination, and federal provisions and enforcement machinery within each state. Though it deals primarily with corporate compliance, the article can be of assistance to labor unions, employment agencies, and others who are affected by the legislation.

OFFICE

REPRODUCTION METHODS FOR SMALL

RUNS. By Warren W. Wood. *Office Executive* (1927 Old York Road, Willow Grove, Pa.), April, 1961. 50 cents. An analysis of the processes available for making duplicates of reports when only a small number of copies is needed, this article discusses the advantages and drawbacks of such reproducing methods as letterpress, offset, xerography, stencil, and hectography. The author examines problems in connection with determining the cost of setting up a program, methods of assembling pages, costs of the cover, and publication schedules (writing and illustrating the copy, editing, checking, and getting approval).

SECURITY RECORDS. By John L. Buckley. *The Office* (232 Madison Avenue, New York 16, New York), May, 1961. 50 cents. Millions of classified documents, letters, studies, and reports have been generated by the industrial firms, colleges and universities, and nonprofit organizations that have been granted Top Secret, Secret, Confidential, Atomic Energy Commission, or other government

agency security clearances. To aid the security program administrator with record-keeping problems, the author details the records necessary to protect classified material and describes basic forms for an adequate security-records program. Photographs of different kinds of security forms—e.g., visit request forms—are included.

TRANSCRIBING, STENOGRAPHIC AND TYPING SERVICES.

By James H. Percival. *NOMA Technical Quarterlies* (National Office Management Association, Willow Grove, Pa.), March, 1961. 75 cents. This pamphlet not only describes methods of providing transcribing, stenographic, and typing services to meet a variety of needs in small, medium, and large companies, but also examines the administration of these services to get the best possible service at the lowest possible cost. In his discussion of transcribing services, the author has attempted to include all methods of dictating a message or report onto mechanical equipment and having it reproduced in typewritten form.

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SURVEY OF BOOKS

for executives



New Ideas, New Approaches

VITALITY IN A BUSINESS ENTERPRISE. By Frederick R. Kappel. McGraw-Hill Book Company, Inc., 330 West 42 Street, New York 36, N. Y., 1960. 102 pages. \$4.00.

*Reviewed by Melvin H. Baker**

Mr. Kappel writes from a sincere belief that the great ideological struggle we are now engaged in may well be decided by the vitality of our business organizations. Having underlined the importance of his subject, he breaks it down under three headings: "A Concept of Vitality," "Goals That Build the Future," and "The Spark of Individuality." Throughout the book, he draws upon the experience he gained when he was coming up through the ranks at the American Telephone and Telegraph Company, of which he is now president.

One of his major concerns is the

need for developing the kind of men who can meet the challenges of the future. The concepts he spells out in this connection are of great practical value. While he recognizes the importance of training, his main emphasis is on the role of character and ambition.

Mr. Kappel believes that heritage and tradition serve only as a pattern for a general approach and must be subjected to a constant flow of new ideas. He spends a large part of the book in showing how the imagination can be sparked to generate new approaches. This emphasis on innovation, of course, calls for judgment in putting a man where he is best fitted, clarifying the scope of his job in order to extend his ability, and then leaving him on his own. At the same time, the manager is expected to coordinate the efforts of individuals into a pattern for team efforts.

As should be clear by now, all Mr. Kappel's points are linked by one underlying theme—the need to plan for the future: "I must do everything I conceivably can to assure the cur-

* Chairman of the Board, National Gypsum Company, Buffalo, New York.

rent success of my business . . . Yet with all this, the greatest challenge to me is to build vitality for tomorrow." This challenge is becoming an ever more central part of the executive's job, Mr. Kappel notes, as the increasing complexity of business imposes a host of new problems on management. The duty of the executive is to anticipate these problems and to see to it that the management of the future will be able to carry on and improve the business.

What I like most about *Vitality in a Business Enterprise* is that from beginning to end the author talks about people. There is no fuzzy thinking; he makes it clear that it is

the people in an organization who determine its image, its growth, and its success. Top management, he says, must be constantly reminded of this.

The book is short and well written and makes interesting reading. Though the author is the head of one of our largest corporations, he clarifies many issues of interest to both top and middle management and to businesses of smaller size. As a matter of fact, Mr. Kappel's conclusions become all the more impressive when he draws upon the experience of AT&T. They not only provide useful insights for managers at all levels, but also justify added confidence in the future of American enterprise. ♦

Purchasing—Philosophy and Operations

PROCUREMENT: The Modern Science of Purchasing. By Henry G. Hodges. Harper & Brothers, 49 East 33 Street, New York 16, N. Y., 1961. 405 pages. \$7.50.

*Reviewed by Samuel C. Farmer**

Comparatively little information is available in textbook form on the subject of purchasing management. In most libraries, the total amount of shelf space devoted to it is significantly sparse. Professor Hodges' new book, *Procurement: The Modern Sci-*

ence of Purchasing, is a welcome addition to the field.

Though seemingly best suited for the student of purchasing or the neophyte purchasing agent, the book may well turn out to be the ultimate arbiter for defining the scope and functions of purchasing management. It can be used either as a refresher course for those already experienced in purchasing or procurement, or as a signpost pointing the way back to reality when excessive enthusiasm or interdepartmental frictions threaten to throw the whole function off balance.

Refreshingly devoid of the formulas, charts, graphs, and statistics so abundant in other volumes, the book

*AMA Purchasing Division Manager.

briefly yet thoroughly analyzes each facet of the purchasing function in the light of its real contribution to management objectives. The reader is left in little doubt as to the reasons why responsibility for a specific job lies within the purchasing department. Continued emphasis is placed on the fact that there are no substitutes for a thorough understanding and working knowledge of each significant purchasing area.

Throughout the book, Professor Hodges focuses on the most frequently overlooked management philosophies behind the various purchasing functions. The following quotations may serve to show how surely he goes right to the heart of the matter.

On price determination:

Price indexes, even the good ones, must be taken with a grain of salt. The capable purchasing agent looks behind the statistics to discover whether there is an unusual situation responsible for the unusual statistics. More than one index should be consulted, and, for a particular industry, special indexes should form a fundamental guide, subject, of course, to a questioning attitude.

On appraising the purchasing department:

It is obvious that the comparisons of procurement departments, even in the same industry, are practically meaningless. . . . The survey which has for its objectives a listing of the department's weak points and recommendations for their improvement, however, is of inestimable value. . . . Finally, it is through some form of evaluation that top management will be enabled to control the procurement department's activities and guide it to more effective management.

On the problem of make or buy:

There is no formula which can be used in arriving at a correct make-or-buy decision. In fact, there are few formulas in management which can take the place of seasoned judgment.

. . . Each decision, after all the facts are analyzed, must be related to the specific situation under consideration.

On centralized vs. decentralized purchasing:

A leading question in connection with branch operations is: To whom should the branch purchasing agent report? Since he is located in the branch plant, he should report to the plant manager for purposes of internal co-ordination. As far as purchasing is concerned, he reports to the home office. If the plant manager and the branch purchasing agent are reasonably congenial, no difficulty develops from this dual relationship. . . . As with most other subjects in the field of management, plans for carrying out the purchasing activity should take into account the details of the particular situation where they are to be applied.

On negotiation and competition:

As has been suggested, sealed bids are based on a negative premise—to prevent dishonesty on the part of the suppliers and/or the public purchasing agent. Whether or not the method accomplishes its purpose, it misses the idea of awarding contracts on an understanding of the factors involved, at a reasonable price. The positive approach leads to improving the purchasing procedures rather than the protective devices. The result is that public purchasing under the sealed-bid method is largely a clerical operation in which the purchasing agent has very little opportunity to exercise any skill in negotiating. A first-class supplier desires negotiation just as much as does the skillful purchasing agent. Only in this way can fair and

honest price adjustments be based on facts.

Inevitably enough, there are a few omissions in this otherwise thorough coverage of the field. Separate chapters might have been devoted to traffic and scrap; and more specific examples would have helped the reader to

decide how the principles laid down by Professor Hodges apply to his own situation. All in all, however, the book is a notable contribution to better understanding of one area of management where decisions often spell the difference between operating at a profit or at a loss. ♦

Briefer Book Notes

GENERAL

BUSINESS GAMES: A Simulation Technique. (Information Series No. 3.)

By John Whedon Acer. Bureau of Labor and Management, College of Business Administration, State University of Iowa, Iowa City, Iowa, 1960. 48 pages. \$1.00. Beginning with background information on the history of business games, their place in the field of professional education, their relation to models, and so on, the author goes on to classify, describe, analyze, and evaluate some 30 games; to show the uses to which they are put; and to examine various controversies in the field. His final chapter offers some conclusions about the present and potential usefulness of business games, as well as their future development.

TRENDS IN THE AMERICAN ECONOMY IN THE NINETEENTH CENTURY: Studies in Income and Wealth. By the Conference on Research in Income and Wealth, National Bureau of Economic Research. Princeton University Press, Princeton, N.J., 1960. 780 pages. \$15.00. Papers first presented at a series of joint sessions of the Conference on Income and Wealth and the Economic History Association. Dealing with both the United States and Canada, they cover five major topics: output growth and price trends; income originating, by sector; factor payments; investment; and balance of payments.

INFLATION: Its Causes and Cures. By Gottfried Haberler. American Enterprise Association, Inc., 1012 14 Street, N.W., Washington 5, D.C., 1960. 85 pages. Single copies, \$1.00. An analysis of a 1959 study, in which the author discusses types of inflation and their causes, and suggests some anti-inflation policies.

SMALL PLANT MANAGEMENT. (Second Edition.) Edited by William A. MacCrehan, Jr. McGraw-Hill Book Company, Inc., 330 West 42 Street, New York 36, N. Y., 1960. 563 pages. \$10.50. Based on a research study by the Small Plant Committee of The American Society of Mechanical Engineers, this guide consists of 21 essays on four major topics: small plants as economic factors, management tasks, how to solve the important problems of small-plant management, and the outlook for small plants at home and abroad. Mr. MacCrehan has not only brought the material of the 1950 edition up to date, but has also tried to preserve the thoughts and contexts of the original authors.

IDEAS FOR MANAGEMENT: Papers and Case Histories Presented at the Twelfth Annual International Systems Meeting. Edited by W. R. Amos. The Systems and Procedures Association, 1960. Available from Management Publishing Corporation, 22 West Putnam Avenue, Greenwich, Conn. 573 pages. \$16.00. The contents are divided into three major sections: the first, and shortest, is directed at the novice in systems or the practitioner in search of new approaches, and its eleven addresses actually constitute a short course in the tools and principles of systems work; the second section presents talks and discussions from the meeting's day-long seminars; and the third and longest focuses on EDP and consists of case histories and reports on new developments in the field.

MEDICINE MAKERS OF KALAMAZOO. By Leonard Engel. McGraw-Hill Book Company, Inc., 330 West 42 Street, New York 36, N.Y., 1961. 262 pages. \$4.50. A history of the American pharmaceutical industry and its contribution to advanced medicine over the past 25 years, as seen in the origin, development, and accomplishments of one particular company—the Upjohn Company, of Kalamazoo, Mich.

A GUIDE TO OFFICE CLERICAL TIME STANDARDS: A Compilation of Standards Data Used by Large American Companies. Systems and Procedures Association, 4463 Penobscot Building, Detroit, Mich., 1960. 170 pages. \$15.00. A rule-of-thumb guide for the manager required to supervise, design, and evaluate the operations performed in conventional clerical systems. Actual standards data used by various companies are included.

INTEGRATED DATA PROCESSING AND COMPUTERS. Organisation for European Economic Co-operation, 1960. Available from OEEC Mission, 1346 Connecticut Avenue, N.W., Washington 6, D.C. 80 pages. \$1.75. This report on recent trends and developments in EDP was prepared by a group of European experts and based on surveys and actual visits to U.S. educational institutions, computer centers, and companies now using integrated data-processing programs.

GERMANY BETWEEN EAST AND WEST. (Seventh in the NPA Series on The Economics of Competitive Coexistence.) By Wolfgang F. Stolper. National Planning Association, 1606 New Hampshire Avenue, N.W., Washington 9, D.C., 1960. 80 pages. \$1.75. Analyzes the postwar economic records of East and West Germany, their economic prospects, and the economic implications of the various courses open to Germany as a whole.

U.S. BUSINESS INVESTMENTS IN FOREIGN COUNTRIES. By Samuel Pizer and Frederick Cutler. U.S. Department of Commerce, 1960. Superintendent of Documents, U.S. Government Printing Office, Washington 25, D.C. 150 pages. \$1.00. An analysis of U.S. foreign business investments and their contribution to the economic development of the countries concerned, as well as to our own economy. Among the subjects included are capital flow from the United States, sales of direct-investment enterprises, sources of funds, and an analysis of parent companies.

THE GENERAL ELECTRIC COMPANY IN BRAZIL. (Ninth Case Study in an NPA Series on United States Business Performance Abroad.) By Theodore Geiger, with the assistance of Liesel Goode. National Planning Association, 1606 New Hampshire Avenue, N.W., Washington 9, D.C., 1961. 106 pages. \$1.00. After presenting some fairly extensive background information on Brazil itself and on GE, this study deals with the growth, expansion, and specialization of GE's Brazilian operations; the company's policies and practices in such spheres as organization, labor-management relations, and the training and promotion of Brazilian employees; and its economic and social contributions to Brazil.

ADMINISTRATION OF ELECTRONIC DATA PROCESSING. By Carl G. Baumes. (Studies in Business Policy No. 98.) National Industrial Conference Board, Inc., 460 Park Avenue, New York 22, N.Y., 1961. 142 pages. Conference Board Associates, educational and governmental institutions, \$5.00; non-Associates, \$25.00. A practical guide for the manager responsible for inaugurating, administering, or overseeing an electronic data-processing system, this report deals solely with the administrative aspects of EDP. In nontechnical language, the author discusses the problems of switching from a conventional to an electronic data-processing system and illustrates his comments with actual case studies.

SUCCESSFUL MANAGERIAL CONTROL BY RATIO-ANALYSIS. By Spencer A. Tucker. McGraw-Hill Book Company, Inc., 330 West 42 Street, New York 36, N.Y., 1961. 436 pages. \$11.00. A practical guide for developing and applying the concepts and techniques of ratio-analysis to a wide variety of business situations. Focusing on the development of both simple and advanced ratios—derived from previously unrelated data—this text shows how company data and statistics can be reduced to significant mathematical ratios.

ORGANIZED EXECUTIVE ACTION: *Decision-Making, Communication, and Leadership.* By Henry H. Albers. John Wiley & Sons, Inc., 440 Fourth Avenue, New York 16, N.Y., 1961. 604 pages. \$8.50. An inter-disciplinary approach to the problems of executive action, this book shows how the functional areas of management relate to the planning and decision-making processes. Executive development and the application of electronic computers to decisional and informational problems are also discussed.

PRINCIPLES OF ENGINEERING ECONOMY. (Fourth Edition.) By Eugene L. Grant and W. Grant Ireson. The Ronald Press Company, 15 East 26 Street, New York 10, N.Y., 1960. 574 pages. \$8.00. This completely rewritten edition gives increased emphasis to the concepts of cash flow and capital rationing and to methods of analysis based on the mathematics of compound interest. Among other changes are the addition of new interest tables and of diagrams and mnemonic symbols clarifying certain aspects of compound interest, plus an earlier presentation of the importance of income-tax considerations.

FUNDS FOR RESEARCH AND DEVELOPMENT IN INDUSTRY, 1957: *Performance and Financing.* National Science Foundation, 1960. Superintendent of Documents, U.S. Government Printing Office, Washington 25, D.C. 120 pages. 65 cents. The findings of a survey carried out four years ago by the NSF's Office of Special Studies provide comprehensive data on the magnitude, type, and economic characteristics of research and development activities in private industry.

CLASSICS IN ECONOMICS: *A Course of Selected Reading by Authorities.* With an Introductory Reading Guide by G.D.H. Cole. Philosophical Library, Inc., 15 East 40 Street, New York 16, N. Y., 1960. 324 pages. \$6.00. Besides providing an introduction that takes the reader from "What Economics Is About" through an exposition of the planning vs. free enterprise issue, the compiler of these readings—one of Britain's leading economists—links his 37 selections with comments explaining their relation to each other and the problems under consideration. The essays, organized in three sections—production and distribution, money and trade, and work and welfare—range in time from Adam Smith to the United Nations Department of Economic Affairs.

THE PUNCHED CARD DATA PROCESSING ANNUAL: *Applications and Reference Guide, Vol 2.* Gille Associates, Inc., 22nd Floor, Book Tower, Detroit 26, Mich., 1960. 260 pages. \$15.00. Keeping the same reference format as in Volume 1, this Guide brings up to date all previously included information and, as before, contains numerous signed articles describing specific applications. A bibliographical index to pertinent articles has been added, as well as a revised chart of the latest computer equipment.

MANAGEMENT CONTROL SYSTEMS. Edited by Donald G. Malcolm and Alan J. Rowe. General Editor, Lorimer F. McConnell. John Wiley & Sons, Inc., 440 Fourth Avenue, New York 16, N.Y., 1960. 375 pages. \$7.25. Papers and discussions from a symposium on management information and control systems held at the System Development Corporation in July, 1959. Major sections deal with concepts of, and present practices in, management control; the impact of computers on the design of management controls and on organization; examples of automated management controls; new approaches and future possibilities; and the need for research in management control system design.

A STUDY IN THE THEORY OF INVESTMENT. By Trygve Haavelmo. The University of Chicago Press, 5750 Ellis Avenue, Chicago 37, Ill., 1960. 221 pages. \$5.00. One of the necessary steps toward a realistic investment theory, says Professor Haavelmo, is the study of the relation between investment activity and the fundamental laws of economic behavior. As a contribution to that study, this book first surveys the existing theories and problems in the field and then examines capital as a factor of production, savings, and investment in a centralized economy, and of investment behavior in a market economy.

CASES IN GENERAL MANAGEMENT. By C. J. O'Donnell. Richard D. Irwin, Inc., 1818 Ridge Road, Homewood, Ill., 1961. 375 pages. \$8.00. Using actual case histories, the author describes and analyzes the basic functions of the modern manager and relates these functions to the problems of policy-making. For the advanced student as well as for operating executives.

TRADE WITH COMMUNIST COUNTRIES. By Alec Nove and Desmond Donnelly. The Institute of Economic Affairs, 1960. Available from the Macmillan Company, 60 Fifth Avenue, New York 11, N.Y. 184 pages. \$6.00. A dual research report by two British authorities. Mr. Nove examines the present organization of trade in the Communist countries against the background of their domestic planning and assesses the prospects for greater East-West trade. Mr. Donnelly surveys the prospects and practical methods of trading with Communist countries in the light of Mr. Nove's analysis. The book as a whole contains a great deal of information that should be of practical value to the businessman contemplating trade with the Communist world.

THIRTY-SECOND ANNUAL BOSTON CONFERENCE ON DISTRIBUTION. Boston Conference on Distribution, Soldiers Field, Boston 63, Mass., 1960. 104 pages. \$5.50. These proceedings of a conference held in Boston last fall include talks on such topics as industrial marketing, U.S. policy and world affairs, the survival of small business in the world market, the super-market and the general merchandise field, and communications.

DEMOGRAPHIC AND ECONOMIC CHANGE IN DEVELOPED COUNTRIES:

A Conference of the Universities-National Bureau Committee for Economic Research. Princeton University Press, Princeton, N. J., 1960. 536 pages. \$12.00. Report on a conference at which demographers and economists joined in exploring the influence of economic factors on fertility and mortality in developed countries and the influence of demographic factors upon important economic variables. The papers and the critical comments that accompany them are decidedly technical.

POLICIES AND PRACTICES OF UNITED STATES SUBSIDIARIES IN CANADA.

By John Lindeman and Donald Armstrong. Canadian-American Committee Sponsored by National Planning Association (U.S.A.) and Private Planning Association of Canada, 1961. Available from National Planning Association, 1606 New Hampshire Avenue, N.W., Washington 9, D.C. 82 pages. \$2.00. Based largely on intensive interviews with representatives of U.S. parent companies and Canadian subsidiaries, officials of the two governments, and other informed people, this study focuses on various aspects of the managerial behavior of U.S. subsidiaries in Canada that have been sharply criticized by Canadians. The authors examine the Canadian allegations, try to explain why the subsidiaries act as they do, and evaluate Canadian suggestions and recommendations.

INTRODUCTION TO LINEAR PROGRAMMING. By Walter W. Garvin.

McGraw-Hill Book Company, Inc., 330 West 42 Street, New York 36, N.Y., 1960. 281 pages. \$8.75. Approaching its subject matter from a practical standpoint, this text presents a rigorous explanation of the theory of linear programming and shows how to set up and solve programming models in many situations. Every important concept and procedure is illustrated by numerical examples, and, for further clarification, numerous flow diagrams are included. The reader is required to have a command of college algebra.

PREDICTION AND OPTIMAL DECISION: *Philosophical Issues of a Science of Values.* By C. West Churchman. Prentice-Hall, Inc., Englewood Cliffs, N.J., 1961. 394 pages. \$9.00.

In clear, nontechnical language, the author analyzes the relationship between scientific findings and managerial decisions. Drawing his illustrations from the social and management sciences and from operations research, he discusses the extent to which the scientist can assist the decision-maker.

SCIENTISM AND VALUES. Edited by Helmut Schoeck and James W.

Wiggins. D. Van Nostrand Company, Inc., 120 Alexander Street, Princeton, N. J., 1960. 270 pages. \$6.50. A collection of essays in which scholars from a number of fields—history, biology, sociology, philosophy, and others—attack the school of social science that patterns its enterprise after the

natural sciences. Not only is such an endeavor simplistic, these critics assert, but its professions of objectivity are unjustified and in fact foster the use of scientific techniques and findings for altogether subjective purposes.

IT'S YOUR BUSINESS. By John Harriman. Houghton Mifflin Company, 2 Park Street, Boston 7, Mass., 1960. 182 pages. \$3.50. An analysis of the challenges threatening American industry and economic security. Maintaining that the economic and political objectives of a nation are inseparable, the author examines the growing competition from European and Japanese markets, the trend toward moving American corporations overseas, and the decline of the American dollar.

THE CHANGING STRUCTURE OF COMMERCIAL BANKING. (Tuck Bulletin 24.) By George E. Lent. The Amos Tuck School of Business Administration, Dartmouth College, Hanover, N.H., 1960. 30 pages. Single copies, gratis. After tracing the recent history of our "triple" banking system, the author deals with three major trends: the growth of branch banking, concentration in banking, and the geographical redistribution of banking facilities. The nature and causes of each trend are analyzed along with some of the issues of public policy involved.

THE STORY OF PITNEY-BOWES. By William Cahn. Harper and Brothers, 49 East 33 Street, New York 16, N.Y., 1961. 262 pages. \$4.50. This account of the company's founding and early struggle for acceptance shows its emergence from the Depression years and its pioneering work in employee relations that subsequently influenced the American way of life. Included, of course, is the story of how Pitney-Bowes developed the postage meter.

PRINCIPLES AND DESIGN OF PRODUCTION CONTROL SYSTEMS. By Evan D. Scheele *et al.* Prentice-Hall, Inc., Englewood Cliffs, N. J., 1960. 369 pages. \$9.00. The purpose of this text, the authors note, is "to develop a scientific approach to the solution of planning and control problems in any type of production or management activity." Its emphasis is on design, and its approach chronological, with each chapter devoted to a separate function of production control or a related management or industrial engineering technique. Among its features are descriptions of the latest mathematical techniques useful in production control.

PROCEEDINGS OF THE 19TH INTERNATIONAL CONFERENCE, JUNE 12-15. The Institute of Internal Auditors, Inc., 120 Wall Street, New York, N.Y., 1960. 128 pages. \$1.50. Among the topics discussed at this conference, held in Milwaukee last year, were the corporate insurance program, the meaning of electronic data-processing to the auditor, the use of visual aids in reporting, and auditing advertising and sales-promotion activities.

FINANCE

CASES IN FINANCIAL MANAGEMENT. By Robert L. Masson *et al.* Richard D. Irwin, Inc., 1818 Ridge Road, Homewood, Ill., 1960. 720 pages. \$12.00. Intended for students who are familiar with the techniques of financial analysis and what the financing functions of management entails, this casebook is divided into seven sections: the capitalization plan; cost of capital; capital budgeting and return on investment; operating finance; stockholder and other interests; valuation for mergers and special problems; and capitalization aspects of reorganization.

ACCOUNTING FOR MANAGEMENT CONTROL. By William H. Childs. Simmons-Boardman Publishing Corporation, 30 Church Street, New York 7, N.Y., 1960. 714 pages. \$7.75. Intended for both accounting and non-accounting students, this text emphasizes the use of accounting methods as a means of helping management preserve the owners' investment and use it effectively in profit-generating activities. Thus special prominence is given to the accounting system, both as a source of public reports, internal reports to management, and quantitative data for business planning and as an implement for securing internal control.

ACCOUNTING AND BUSINESS FLUCTUATIONS. By Delmas D. Ray. University of Florida Press, 15 N.W. 15 Street, University of Florida, Gainesville, Fla., 1960. 184 pages. \$6.50. In this analysis, basic accounting concepts are examined in the light of applicable economic theory, while accounting methodology is scrutinized with respect to price level, inventory, valuation, depreciation accounting, and the effects of these methods on the businessman's investment behavior. The author supports his conclusions with empirical data from authorities in the field.

60 YEARS OF BUSINESS CAPITAL FORMATION: *Economic Analysis and Public Policy Implications.* By George Terborgh. Machinery and Allied Products Institute, 1200 18 Street, N.W., Washington 6, D.C., 1960. 18 pages. \$1.50. A documentation of business capital expenditures over the past 60 years, this pamphlet examines these expenditures in relation to contemporary measures of economic activity and points up the need for a sound program of tax reform.

CURRENT APPLICATION OF DIRECT COSTING. (N.A.A. Research Report 37.) National Association of Accountants, 505 Park Avenue, New York 22, N.Y., 1961. 110 pages. \$2.00. The findings of a study of 50 companies' experience in applying direct-costing principles. This booklet covers such considerations as the nature of direct costing, application of direct costing to pricing decisions, its role in cost control, and the income-tax status of direct costing.

COST ADMINISTRATION: Cases and Notes. By Earl D. Bennett. Prentice-Hall, Inc., Englewood Cliffs, N.J., 1960. 606 pages. \$10.00. Thirty-seven cases are grouped around four major headings: cost flows and reports; cost implications of production and inventory controls; techniques and applications of budgetary control; and systems design and implementation. The last section includes material on the management-service activities of public accounting firms and presents four cases on implications for management of advances in data-processing.

INVESTMENTS: Analysis and Management. By Douglas A. Hayes. The Macmillan Company, 60 Fifth Avenue, New York 11, N.Y., 1961. 598 pages. \$7.50. The emphasis in this text is on the need for basic education in the subject of investments, rather than for mere training in accounting skills. Among the topics covered are the theory and mechanics of investments, general analysis and valuation procedures, taxation, financial institutions, and costs and competition.

MANAGEMENT OF CAPITAL EXPENDITURES—1959-1960 SERIES. By Joel Dean. Bureau of Business Research, The University of Texas, Austin, Tex., 1960. 30 pages. \$1.00. Among the subjects covered in this collection of informal discussions by authorities in the manufacturing and public-utilities fields are the importance of capital management, long and short-range capital budgets, evaluation of capital proposals, screening standards, and forms and procedures.

PROFIT PLANNING THROUGH VOLUME-COST ANALYSIS. By John Y. D. Tse. The Macmillan Company, 60 Fifth Avenue, New York 11, N. Y., 1960. 240 pages. \$7.95. The first half of this book attempts to show the chief ways in which volume-cost analysis can be used in profit planning; the second half, to point out some of the key factors underlying the successful application of the method. The author, who makes his points largely through analyzing actual examples, concludes with three complete case histories.

THE FOREIGN TAX CREDIT: A Study of the Credit for Foreign Taxes Under United States Income Tax Law. By Elisabeth A. Owens. Harvard University Law School, Cambridge 38, Mass., 1961. 634 pages. \$20.00. A comprehensive technical analysis of United States code and treaty law on credit allowances for foreign income taxes against U.S. income tax. Included are a description of the 1960 amendments to the tax-credit law, numerous forms, tables, and a topical index.

PROCEEDINGS OF THE TWENTY-SECOND INSTITUTE ON ACCOUNTING, May 19 and 20, 1960. Edited by The Bureau of Business Research, College of Commerce and Administration, The Ohio State University. Ohio

State University Publications, Columbus 10, Ohio, 1960. 162 pages. Gratis. Among the topics covered in these papers are accounting research as a means of achieving better financial reporting, changes in auditing procedures in an expanding economy, controllership education, the issue of depreciation allowances, and adaptation of corporate policies to changing economic conditions.

MARKETING

THE SPENDERS. By Stuart Henderson Britt. McGraw-Hill Book Company, Inc., 330 West 42 Street, New York 36, N.Y., 1960. 293 pages. \$4.95. Taking on Vance Packard and other critics of modern marketing and advertising, Dr. Britt, who teaches these subjects at Northwestern University, uses much the same material that they used; he, however, uses it to demonstrate his contention that the consumer is not the pawn of American business but, rather, its master. Among the topics he considers are the motives, needs, and behavior of consumers; how advertising helps the consumer; the use of marketing research and motivation research; the influence of women; and future trends in marketing and market behavior.

PLANNING MERCHANDISING STRATEGY FOR 1961-1965. By E. B. Weiss. Doyle Dane Bernbach, Inc., 20 West 43 Street, New York 36, N.Y., 1960. 73 pages. Single copies, gratis. This study, by Doyle Dane's director of merchandising, starts off with a bang—by predicting that shoppers will soon revolt against self-service retailing—and then prophesies an era marked by internal competition, true giant retailing, leased departments, international brands, and other changes relevant to short-term merchandising strategy. Mr. Weiss not only refers to many specific examples and research studies but also gives a good deal of evaluation and opinion.

THE CONSUMER AND THE NEW BUSINESS CYCLE. The Foundation for Research on Human Behavior, 1141 East Catherine Street, Ann Arbor, Mich., 1960. 27 pages. \$2.00. Three papers based on the University of Michigan Survey Research Center's studies of consumer expenditures, expectations, and attitudes. The central idea is that consumers have become a major stabilizing force in the economy.

GRAPHIS PACKAGING: An International Survey of Package Design. Edited by Walter Herdeg. Amstutz & Herdeg, The Graphis Press, Zurich, Switzerland, 1960. Available from Frederick A. Praeger, Inc., 64 University Place, New York 3, N.Y. 322 pages. \$17.50. This handsome work, containing illustrations of over a thousand well-designed packages, is organized by type of product and type of package, accompanied by technical information and other pertinent details. Its text, which is printed in English, French, and German, includes essays by thirteen authorities, some on such

general topics as the means and ends of package designing, some serving as introductions to the sections of illustration. Also included are an illustrated section on folding-box construction and a check list for package planning.

Publications Received

(Please order books directly from publishers)

PRIVATE INVESTMENT ABROAD. A study by Machinery and Allied Products Institute and the Council for Technological Advancement. Machine and Allied Products Institute, 1200 Eighteenth Street, N.W., Washington 6, D.C., 1961. 21 pages. Single copies, 50 cents.

STATISTICAL MEASURES OF CORPORATE BOND FINANCING SINCE 1900. A study by the National Bureau of Economic Research. Compiled by W. Braddock Hickman, with the assistance of Elizabeth T. Simpson. Princeton University Press, Princeton, N. J., 1960. 582 pages. \$9.00.

GROWTH AND TAXES: Steps for 1961. By Committee for Economic Development, 711 Fifth Avenue, New York 22, N. Y., 1961. 43 pages. \$1.00.

BANKING AUTOMATION AND THE MAGNETIC INK CHARACTER RECOGNITION PROGRAM. By Dale L. Reistad. Detroit Research Institute, 12 East Hancock, Detroit 1, Mich., 1961. 178 pages. \$7.50.

FEDERAL AGENCIES FINANCING RESEARCH: The Complete 1961 Guide to Government Grants and Contracts. Social Legislation Information Services, Inc., 1346 Connecticut Avenue, N. W., Washington 6, D. C., 1961. 25 pages. \$1.00.

MANUAL OF EXPERIMENTAL STATISTICS. By John E. Freund, Paul E. Livermore, and Irwin Miller. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1960. 131 pages. \$3.95.

GROWTH AND STABILITY OF THE POSTWAR ECONOMY. By Bert G. Hickman. The Brookings Institution, 722 Jackson Place, N. W., Washington 6, D. C., 1960. 426 pages. \$6.00.

THE TELEVISION BUSINESS—Accounting Problems of a Growth Industry. By Warde B. Ogden. The Ronald Press Company, 15 East 26 Street, New York 10, N. Y., 1961. 197 pages. \$6.00.

SALES ADMINISTRATION: Principles and Problems. (Fourth Edition.) By Bertrand R. Canfield. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1961. 637 pages. \$7.95.

MACROECONOMIC THEORY. By Gardner Ackley. The Macmillan Company, 60 Fifth Avenue, New York 11, N. Y., 1961. 597 pages. \$8.50.

THE HAWAIIAN MARKET. Compiled and published by J. Walter Thompson Company, 420 Lexington Avenue, New York 17, N. Y., 1960. 43 pages. Single copies, 80 cents.

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A. Many hundreds of AMA's members and participants are managers of nonprofit service or governmental organizations. The central theme of the Association's program lies not in the production and distribution of a particular product or service, nor even in the realization of a profit, but in the function of management. Anyone charged with planning, organizing, directing, and controlling the workings of an organization can find valuable assistance and stimulation in the activities of the American Management Association.

★ If you have any questions about AMA's program or policies, please submit them to AMA's Member Relations Department. All inquiries will be answered promptly. Those questions of most general interest will appear in this feature in subsequent issues of *Management Review*.

